Dollars and Sense:
Big City Finances in the West, 1990-2000

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October 2001

Dollars and Sense: Big City Finances in the West is part of the Canada West Foundation's *Western Cities Project*, and was authored by CWF Senior Policy Analyst Casey Vander Ploeg. Research assistance was provided by CWF Policy Analyst Calvin Hanselmann and CWF Intern Julie McGuire. The *Western Cities Project* is funded in part by the Cities of Vancouver, Edmonton, Calgary, Saskatoon, Regina and Winnipeg.

Canada West would like to express its gratitude to the people in the financial departments of each of the cities who provided their assistance and helpful suggestions including Greg Merchant (Vancouver), Bruce Duncan and Dwight Anderson (Edmonton), Tim Johnson (Calgary), Cal McCarthy (Saskatoon), Vivian Lund and Doug Fisher (Regina), and Pat Bodnar, Georges Chartier, and Joanne Ferrier (Winnipeg). Appreciation is extended to the Dominion Bond Rating Service and the Canadian Bond Rating Service, whose work on municipal finances provided helpful methodological guidance. A special thank-you is also extended to the Urban Finance Advisory Committee including Harriet Permut (Senior Policy Analyst, Union of British Columbia Municipalities), Melville McMillan (Professor of Economics, University of Alberta), Karen Bittner (Manager of Corporate Budget, City of Regina), and Harry Kitchen (Professor of Economics, Trent University).

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ISBN 1-895992-17-6

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Printed in Calgary, Alberta, Canada

CWF Report 2001-12

INTRODUCTION

In March 2000, the Canada West Foundation released a study designed to identify the key concerns in Western Canada's largest cities, and to determine whether those cities share a common issue agenda. Through an in-depth media scan stretching over a one year period and a set of detailed interviews with elected and appointed city officials, journalists and academics, it was found that western Canada's cities do share a number of common concerns. Topping this regional political and economic agenda were the issues of municipal finances, taxation, transportation and infrastructure (Vander Ploeg et al., 2000).

As the study pointed out, the issue of municipal financing is critically important, having ramifications that ripple throughout a city. The financing of municipal government touches on virtually every other urban issue, whether it is the level of city services in general, relieving traffic congestion or constructing a new homeless shelter. While there are numerous reasons to explore the issue of municipal finances, two in particular stand out:

- **Today's metros, particularly those in western Canada, are experiencing rapid growth:** Canada's 25 largest "census metropolitan areas" (CMAs) already contain almost two-thirds of the national population. This share will likely increase as urban growth continues, and big cities in the West will not be immune. The population of western Canada's seven CMAs (Victoria, Vancouver, Edmonton, Calgary, Saskatoon, Regina and Winnipeg) has grown by 92% since 1966, compared to 65% for CMAs in the rest of the country (Vander Ploeg et al., 1999). In fact, of the ten fastest growing CMAs in Canada, five are located in the West (Vancouver, Victoria, Edmonton, Calgary, and Saskatoon). Do western cities have the financial resources and fiscal capacity to accommodate such growth?

- **Large cities are the engines of the economy:** Because big cities are the locus of today's well paying jobs, their citizens also generate the bulk of federal and provincial tax revenue. It is cities that drive domestic consumption, and where the great majority of the national output (gross domestic product) is produced. With few exceptions, large cities are also home to Canada's centers of higher learning, and they serve as hubs for provincial and national transportation infrastructure, whether that be airports or warehousing facilities. If cities continually find themselves underfunded – without the resources to finance critical investments in infrastructure and to deliver a package of quality services at an affordable price – they will fail in the highly competitive global race to attract external investment. The result could be that the larger regional, provincial, and national economies will operate below their potential. More fundamentally, that potential itself will fail to grow.

It is no secret that throughout the 1990s Canada's cities have undergone a financial crunch in the form of reduced operating grants, inconsistent and unpredictable capital funding for investments in infrastructure, and the offloading of certain public services as the federal and provincial governments sought to end their own budget deficits and stem the growth in public debt. While senior governments may have felt compelled to reduce support for municipal governments given the state of their own finances, it is important to realize that this reduction took place when many cities exhibited robust growth, the cost of civic services was increasing and the need for capital investment in infrastructure accelerated. How have cities coped?

The answer is not readily apparent. Despite the growing importance of cities to our national political, social and economic lives, municipal issues generate attention only from a relatively small cadre of academics, public policy researchers, journalists and other commentators. Because the issue of urban finance is not strongly communicated by the broader policy community, it is not surprising that the issue lacks saliency with the great majority of the public. This report attempts to fill the void by exploring the key fiscal indicators of six western Canadian cities (Vancouver, Edmonton, Calgary, Saskatoon, Regina and Winnipeg) for the period 1990 to 2000. In particular, the report addresses the following:

- **Budget Balances:** Provincial legislation typically prevents municipalities from running deficits on their operating budgets. But operating budgets form only one part of the municipal fiscal equation, and the way in which a city defines "operating" budget can impact the size of any surplus or deficit. Have our large cities seen deficits? How large have deficits and surpluses been? How are municipal deficits financed?

- **Debt:** How much have the West's large cities borrowed? What types of debt do they carry? How much is "gross" debt and how much is "net" debt? How much of the debt is "tax-supported" versus "self-supported", and what is the difference? How similar are the cities with respect to their debt profile and debt management policies? What about reserve funds? Is debt growing or is it being reduced?

- **Expenditures:** What portion of a city's budget goes toward paying interest on debt? How much do western cities spend on programs and services? How much do cities spend on municipal infrastructure? How have spending patterns changed?

- **Revenues:** How have municipal revenue streams changed over the last decade? Are property taxes becoming less important as cities shift to user fees? To what extent have grants from senior levels of government been reduced? Are education property taxes eating into municipal property taxes? How have city revenues grown?

Answers to these questions will provide much needed context for the wider discussion now emerging over municipal finances and the importance of our cities to national economic and political life.

CHALLENGES: Building the Data

Constructing a reasonably comparable set of trend data on government finances is no small endeavor, whether the focus be the federal government, its provincial counterparts, or city halls across western Canada. From a municipal perspective, the researcher is immediately confronted with three problems. First, while there is commonality regarding the broader rules for accounting, significant differences emerge in the specifics. For example, some cities include capital revenues and expenditures as part of their final surplus or deficit figure, while others do not. Some cities have traditionally treated the repayment of principal on debt as an expenditure, while others have not. One cannot simply take the information as presented by the cities and make direct comparisons. Sensitivity to the distinct approaches taken by different cities in preparing their financial information is critical if the data are to have any meaning.

Second, municipal governments present financial information in different ways. For instance, some cities net certain conditional grants, user fees, and other revenue from specific expenditures, and report only the "net" expenditure. Some cities lump together all interest payments on debt into one amount on their consolidated statements, while others draw a distinction between interest paid by their self-financing utilities and report only interest paid on debt supported by the tax base. Others do not highlight any interest at all, but attach it to specific expenditure functions, or combine it with principal repayments into one "debt servicing" amount. Different presentation styles makes it very difficult to arrive at a comparable set of numbers.

The fact that cities use different methods of accounting does not prevent city-specific trend analysis, so long as each city maintains a relatively consistent approach. But a third challenge is the fact that governments continually change the methods used to build their financial statements, often without restating the information for prior years. In the early 1990s, for example, most cities did not include the public libraries on their financial statements. Reporting these operations later artificially adds millions of dollars in user fees, grants and operating expenditures to a city's budget. Similarly, some cities have divested themselves of utility operations or converted them into subsidiary corporations, resulting in hundreds of millions of dollars disappearing from the budget. Securing all the necessary information to construct a consistent set of trend data is no small assignment.

Because of these problems, readers are reminded to avoid the perils of ranking or comparing cities with these data, and to focus on similar trends that cities exhibit. On the expenditure side, for example, one city's outlay may be higher not because it is being run inefficiently or overspending, but because it is responsible for delivering provincial programs such as social services for which compensation is provided through grants. Total revenues are also not comparable because no two cities ultimately deliver the same package of municipal goods and services. Granting levels are not comparable either as some cities net operating grants against specific expenditures. Where useful and reasonable comparisons can be made, we have done so. (A complete discussion of the issues affecting each city appears in *Appendix 1.)*

Canada West has managed these inconsistencies by excluding the repayment of debt as an expenditure and eliminating all transfers to and from reserves. The full value of capital expenditures and external capital revenues also form part of a city's final deficit or surplus. This reflects the standards of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). These standards are now beginning to be followed by cities in the West, and are also followed by the DBRS, whose analysis of public finances is well respected within the financial community. A deficit, then, implies that a city has not generated enough revenue to pay all program and capital expenditures for the year, including interest on the debt. The size of the deficit reflects the amount by which the city's closing balance in its various funds will drop, reserves will fall, debt will rise, or some combination of the three. A surplus implies the reverse.

Canada West's urban finance dataset resolves most of the major challenges inherent in urban finance research. While the dataset remains imperfect, in large part due to accessibility challenges, the data provide a reasonable basis upon which to conduct a clinical assessment of big city finances across the West.

METHODOLOGY

The focus of this study is on each city as a corporate entity, rather than the larger "census metropolitan area." Although the inclusion of adjoining municipalities would provide a more complete picture, it is clearly outside the scope of this effort. At the same time, there may be little reason to conclude that the broad trends observed in the core cities are totally dissimilar to the experiences of their satellite communities.

To build a financial database on the six cities, a wide variety of primary and secondary sources were employed. Over 80 financial reports from 1990 to 2000 were analyzed in-depth, as were the financial reports of EPCOR and ENMAX, Edmonton and Calgary's subsidiary corporations. Databases maintained by various provincial municipal affairs departments were also used to secure additional detail, increase consistency in the data and verify our data. Statistics Canada data were used to supplement and verify population figures and Consumer Price Indices (CPI) included in municipal financial reports.

Where available, credit reports from the Dominion Bond Rating Service (DBRS) and the Canadian Bond Rating Service (CBRS) were reviewed to help increase data comparability and secure additional information on municipal liabilities. These reports also served as an independent source of verification for our data. As a final step, all the data were sent to the financial departments of each city for verification and any comments they wished to make.

Wherever possible, research started with the Consolidated Financial Statements prepared by each city, which provide the most comprehensive view of a government's finances – to the extent that all activities are reported. Using historical information presented in the annual reports, efforts turned toward building a consistent baseline of data covering a four or five year period. As changes to consolidation practices emerged, adjustments were made to ensure consistency in the data. In some instances, this was not possible given the information publicly available. For example, in 1997, the Province of Saskatchewan reduced unconditional grants to both Regina and Saskatoon by 50% when responsibility for certain expenditures associated with the grants were transferred from the cities. While the value of the reduction in grants was more than the expenditure savings, the precise amounts cannot be easily quantified and adjusted for the years prior to 1997 given the information readily available. In cases such as these, we are left with issuing caveats on the data.

UNDERSTANDING CITY FINANCES

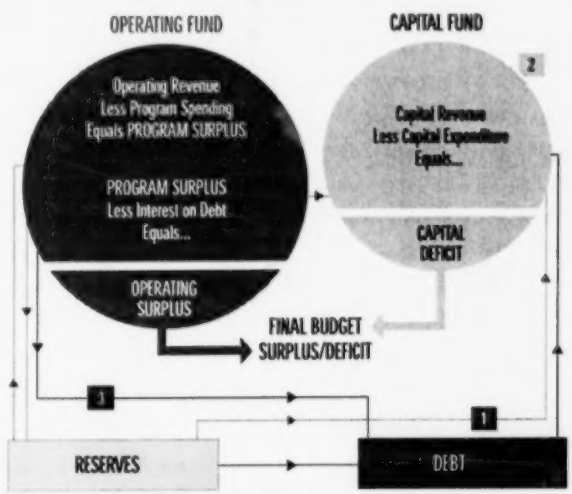
As demonstrated by *Figure 1*, the intricacies of municipal finance are highly complex. Achieving a basic understanding of the terms involved and how revenues and expenditures interact is critical to fully appreciating the state of a municipality's finances. At the heart of any city's budget are two essential components:

- **The Operating Fund:** Every year, millions of dollars in *operating revenues* such as property taxes, business taxes, and user fees flow into the *operating fund.* Most of it is then spent to cover *program expenditures* such as municipal services or civic employees' salaries. (The difference between operating revenue and program expenditure is the *program surplus.)* Interest on debt is also paid out of this fund. Interest plus program expenditure equals *operating expenditure.* (The difference between operating revenue and operating expenditure is the *operating surplus.)*

- **The Capital Fund:** This fund receives *capital revenues* such as provincial and federal grants, local improvement levies and charges to developers. This revenue is dedicated to financing specific *capital expenditures* such as roadways, water lines and sewer treatment facilities. Because capital expenditures typically exceed the amount of capital revenues, this fund always ends the year with a shortfall – the *capital deficit.*

In theory, adding the operating surplus to the capital deficit yields the final or consolidated *budget balance* – either a deficit or a surplus. (Complicating factors numbered 1-3 in the graphic, are discussed in *Appendix 2.)*

FIGURE 1:
The Essentials of Municipal Finance



SOURCE: Derived by Canada West Foundation, 2001.

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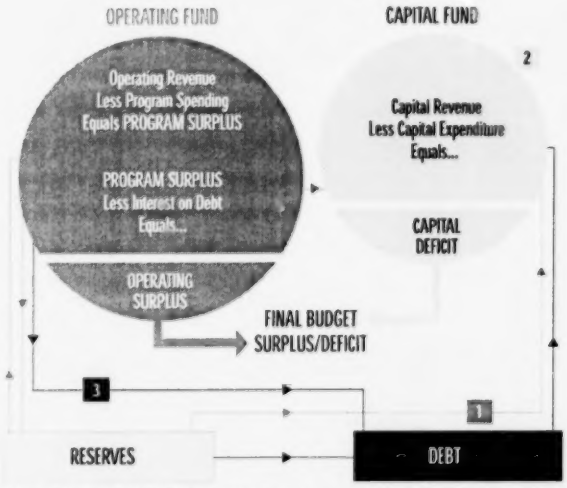


SOURCE: Derived by Canada West Foundation, 2001.

FISCAL INDICATOR #1: Deficits and Surpluses

In public finance, one of the most important fiscal indicators is the final result posted by a government at the end of the year. Did the government close the books with a budget surplus or a deficit? If the budget is in surplus, additional resources are available to reduce debt or increase reserves for future expenditures. If the budget is in deficit, debt will increase or reserves for the future will be reduced.

1. Have Cities Seen Deficits?

Throughout the 1980s and early 1990s, Canadians witnessed a string of sizeable federal and provincial deficits. However, discussion of municipal deficits was virtually non-existent, and it is not difficult to understand why. On the surface, it appears that our cities did not run deficits *(Figure 2)*. A quick overview of the annual reports issued by western cities shows that Saskatoon reported two deficits during the 1990s while Winnipeg reported one. All other cities reported surpluses every year, and the amounts were significant. The City of Vancouver reported continuous surpluses in the range of $20 to $30 million annually, and it was not uncommon for Edmonton and Calgary to report an excess of revenue over expenditure in the order of $100 million or more – roughly 10% of their annual operating expenditures.

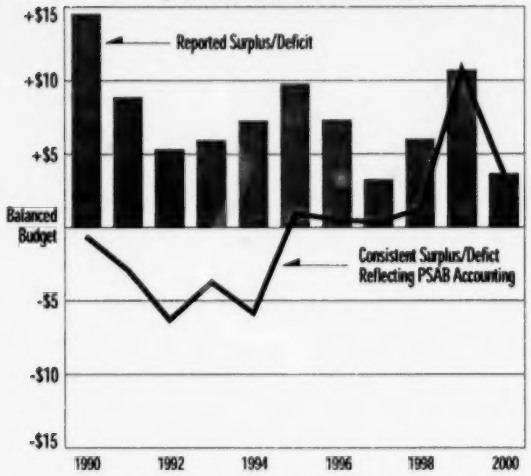
FIGURE 2:
Reported Deficits and Surpluses
(1990-2000 in Thousands of Actual $)

	Vancouver	Edmonton	Calgary	Saskatoon	Regina	Winnipeg
1990	28,502	144,309	79,924	(597)	14,588	19,996
1991	28,867	141,649	69,706	3,116	8,900	18,605
1992	38,119	119,138	104,763	6,937	5,351	4,561
1993	22,397	111,563	73,169	9,046	5,980	(5,429)
1994	29,811	151,358	102,020	14,084	7,305	41,468
1995	26,603	127,712	85,386	(23,583)	9,854	15,113
1996	24,608	145,868	99,023	14,879	7,345	3,971
1997	18,607	103,178	90,390	881	3,284	60,284
1998	26,052	158,117	104,380	4,260	6,055	63,181
1999	20,824	96,962	44,871	14,157	10,773	68,490
2000	22,035	153,461	50,380	14,998	3,703	129,922

SOURCE: Annual Financial Reports of the various cities (1990-2000). The surplus/deficit figures for each year are the excess of revenues over expenditures as presented and defined by the cities in their Consolidated Statements.

In the absence of glaring deficits, the obvious conclusion is that the West's cities were and are in pretty good fiscal shape. But such a conclusion is unwarranted because these reported deficits and surpluses do not share a common definition and are based on several different systems of accounting. When municipal data are presented using a more consistent definition, a much different picture emerges.

FIGURE 3:
Two Ways to Measure Regina's Deficit/Surplus
(1990-2000 in Millions of Actual $)



SOURCE: Derived by CWF from City of Regina Annual Financial Reports (1990-2000) and CBRS.

For example, throughout the 1990s, the City of Regina reported a surplus each year. But when repayment of debt and transfers to and from reserves are removed, and the full value of capital revenues and expenditures are added, it can be seen that Regina has indeed run some budget deficits *(Figure 3)*. From 1990 to 1994, the City's operating and capital spending exceeded revenues, and from 1995 to 1998 the City barely kept itself over the balanced budget line. Only in 1999 did Regina post a significant surplus – $10 million or about 5% of the City's operating revenue. (Regina's reported surpluses and its surplus as defined here merged in 1999 when the City modified its accounting to include the full value of all capital revenues and expenditures.) Without assessing any other fiscal data on Regina, the more appropriate conclusion is that the City has experienced fiscal stress throughout the 1990s.

This is not to imply that cities have been less than forthcoming about their finances. Rather, the essential point is that the accounting employed today is vastly improved over that used in the past, and stretching the current approach back in time yields conclusions that are not evident under past accounting practices. Further, while Regina provides an interesting example, it is hardly the exception. In fact, when a more consistent methodology is applied to all six big cities across the West, we see more than a few deficits.

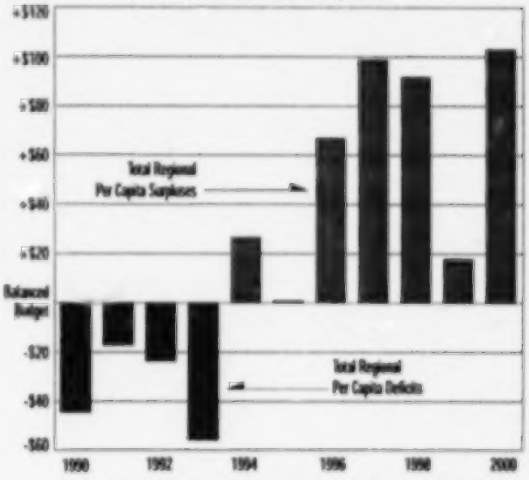
In *Figure 4*, the annual deficit or surplus for each western city (measured consistently) was aggregated for every year from 1990 to 2000, and then divided by the combined population of the cities to establish a regional pattern of per capita deficits or surpluses. In the early 1990s, this regional per capita budget balance was in a deficit position. Small surpluses were registered in 1994 and 1995. A reversal occurred in 1996 when the regional per capita budget balance moved into a larger surplus position, although 1999's result was again quite small. Overall, between 1990 and 2000, the cities saw four years of deficits, three years of small surpluses, and only four years of significant positive results.

The degree to which each city shares in this regional pattern is shown in *Figure 5*, which presents each city's budget balance (in actual dollars) for the 1990 to 2000 period, and in *Figure 6*, which graphically presents per capita deficit/surplus figures. Three distinct categories of cities emerge. The first is comprised of Regina and Winnipeg, which ran consistent deficits throughout the early 1990s but finished the decade on a stronger note with a series of surpluses. Out of the six cities, these two best reflect the larger regional pattern seen above.

The second category is comprised of Edmonton, Calgary and Saskatoon. Each of these cities recorded surpluses for most of the decade, punctuated by some deficit years (primarily in the early to mid-1990s). Edmonton started the decade with two significant deficits, followed by a small surplus and another deficit. With the exception of 1999, the City has seen surpluses since then. Calgary ran two deficits in the early 1990s, and then a series of sizeable surpluses. Calgary has, however, closed the decade with very small surpluses. While Saskatoon has seen only two deficit years, the combined amount was sizeable at $37 million. This was offset by $100 million in combined surpluses during the decade.

In many ways, Vancouver is in a category by itself. From 1990 to 1992, the City was in a surplus position, but that deteriorated into a string of deficits starting in 1993. This pattern would hold throughout the decade – only in 2000 did Vancouver turn things around. While Vancouver's experience is somewhat unique, the City is less of an outlier when we consider that only in 2000 did *every* city across the West post a surplus. For each year prior, at least one city (but usually two or three) was in a deficit position.

FIGURE 4:
Regional Per Capita Deficits/Surpluses
(1990-2000 in Per Capita $)



SOURCE: Derived by CWF from Annual Financial Reports of the cities (1990-2000), Annual Reports of EPCOR and ENMAX (1996-2000), DBRS, CBRS, and Statistics Canada. To produce the figure, the annual deficit/surplus of each city was combined, and then divided by the total population of the six cities. Deficit and surplus amounts include operating and capital revenues and expenditures, and interest on debt. Amounts exclude transfers to and from reserves and principal repayments. Amounts also include capital revenues and expenditures of EPCOR and ENMAX, but exclude PPA and CSR purchases made in 2000 by both utilities.

FIGURE 5:
A Consistent Measure of Deficits/Surpluses
(1990-2000, in Thousands of Actual $)

	Vancouver	Edmonton	Calgary	Saskatoon	Regina	Winnipeg
1990	22,857	(100,958)	50,564	(11,621)	(601)	(83,422)
1991	24,063	(33,843)	20,900	3,637	(2,897)	(60,506)
1992	7,703	26,049	(22,396)	8,023	(6,282)	(80,336)
1993	(22,179)	(74,321)	(28,247)	20,157	(3,715)	(51,411)
1994	(107,685)	78,300	76,151	18,722	(5,811)	18,020
1995	(27,401)	63,039	48,488	(25,028)	962	(59,578)
1996	(222)	126,247	70,059	14,879	521	(14,030)
1997	(25,737)	100,653	150,532	881	376	68,783
1998	(26,616)	96,953	129,067	4,261	1,263	73,708
1999	(21,277)	(21,417)	14,601	14,157	10,773	58,784
2000	36,094	94,646	11,424	14,998	3,703	160,621

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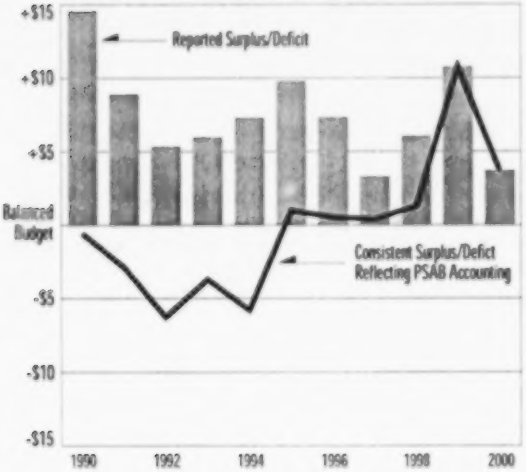

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For example, throughout the 1990s, the City of Regina reported a surplus each year. But when repayment of debt and transfers to and from reserves are removed, and the full value of capital revenues and expenditures are added, it can be seen that Regina has indeed run some budget deficits *(Figure 3)*. From 1990 to 1994, the City's operating and capital spending exceeded revenues, and from 1995 to 1998 the City barely kept itself over the balanced budget line. Only in 1999 did Regina post a significant surplus – $10 million or about 5% of the City's operating revenue. (Regina's reported surpluses and its surplus as defined here merged in 1999 when the City modified its accounting to include the full value of all capital revenues and expenditures.) Without assessing any other fiscal data on Regina, the more appropriate conclusion is that the City has experienced fiscal stress throughout the 1990s.

This is not to imply that cities have been less than forthcoming about their finances. Rather, the essential point is that the accounting employed today is vastly improved over that used in the past, and stretching the current approach back in time yields conclusions that are not evident under past accounting practices. Further, while Regina provides an interesting example, it is hardly the exception. In fact, when a more consistent methodology is applied to all six big cities across the West, we see more than a few deficits.

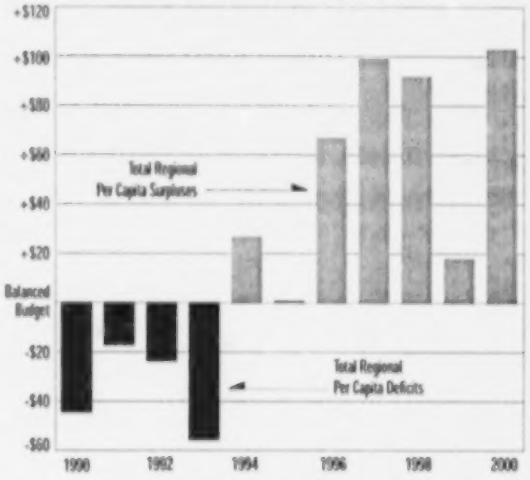
In *Figure 4*, the annual deficit or surplus for each western city (measured consistently) was aggregated for every year from 1990 to 2000, and then divided by the combined population of the cities to establish a regional pattern of per capita deficits or surpluses. In the early 1990s, this regional per capita budget balance was in a deficit position. Small surpluses were registered in 1994 and 1995. A reversal occurred in 1996 when the regional per capita budget balance moved into a larger surplus position, although 1999's result was again quite small. Overall, between 1990 and 2000, the cities saw four years of deficits, three years of small surpluses, and only four years of significant positive results.

The degree to which each city shares in this regional pattern is shown in *Figure 5*, which presents each city's budget balance (in actual dollars) for the 1990 to 2000 period, and in *Figure 6*, which graphically presents per capita deficit/surplus figures. Three distinct categories of cities emerge. The first is comprised of Regina and Winnipeg, which ran consistent deficits throughout the early 1990s but finished the decade on a stronger note with a series of surpluses. Out of the six cities, these two best reflect the larger regional pattern seen above.

The second category is comprised of Edmonton, Calgary and Saskatoon. Each of these cities recorded surpluses for most of the decade, punctuated by some deficit years (primarily in the early to mid-1990s). Edmonton started the decade with two significant deficits, followed by a small surplus and another deficit. With the exception of 1999, the City has seen surpluses since then. Calgary ran two deficits in the early 1990s, and then a series of sizeable surpluses. Calgary has, however, closed the decade with very small surpluses. While Saskatoon has seen only two deficit years, the combined amount was sizeable at $37 million. This was offset by $100 million in combined surpluses during the decade.

In many ways, Vancouver is in a category by itself. From 1990 to 1992, the City was in a surplus position, but that deteriorated into a string of deficits starting in 1993. This pattern would hold throughout the decade – only in 2000 did Vancouver turn things around. While Vancouver's experience is somewhat unique, the City is less of an outlier when we consider that only in 2000 did *every* city across the West post a surplus. For each year prior, at least one city (but usually two or three) was in a deficit position.

FIGURE 4:
Regional Per Capita Deficits/Surpluses
(1990-2000 in Per Capita $)



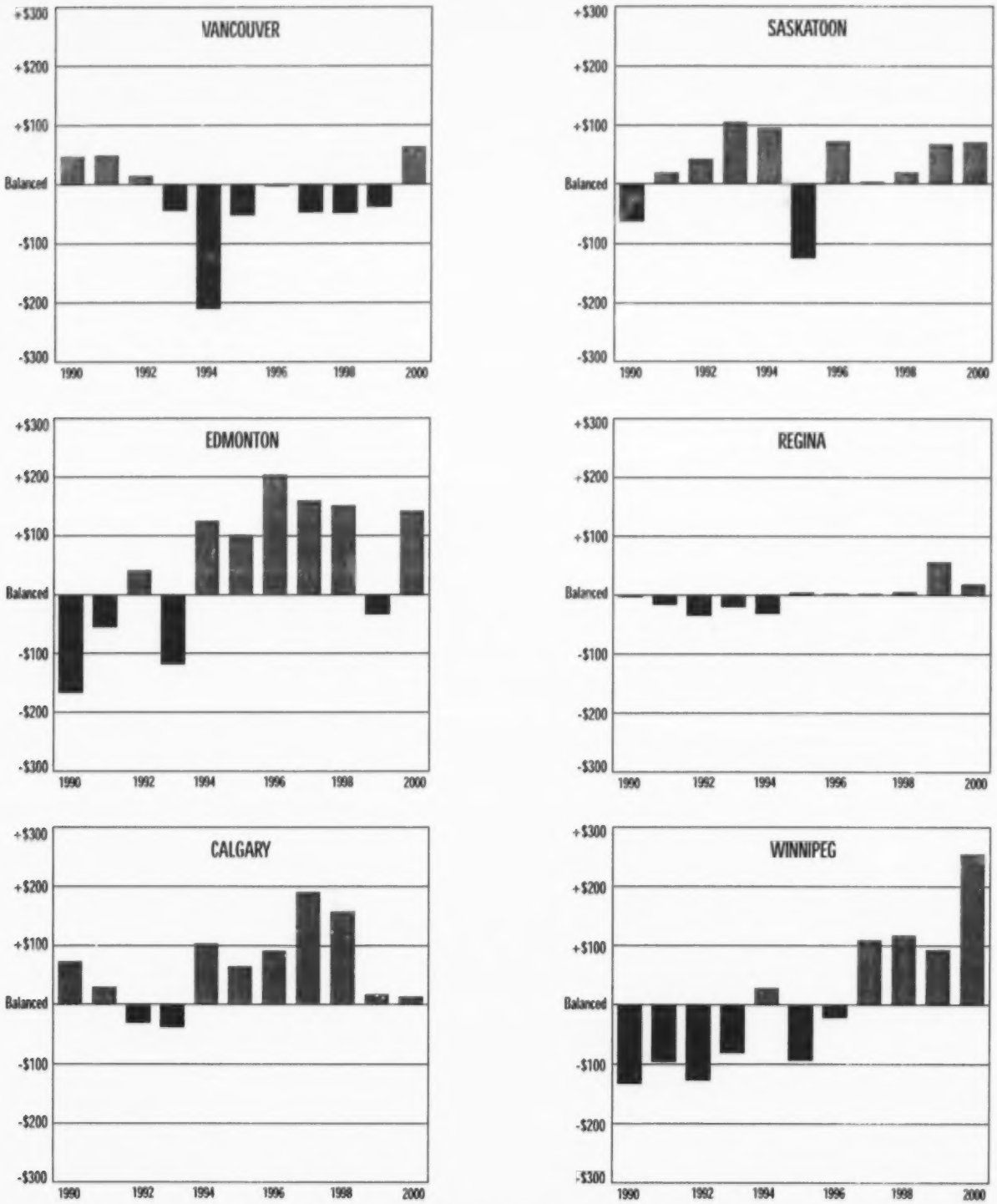
SOURCE: Derived by CWF from Annual Financial Reports of the cities (1990-2000), Annual Reports of EPCOR and ENMAX (1996-2000), DBRS, CBRS, and Statistics Canada. To produce the figure, the annual deficit/surplus of each city was combined, and then divided by the total population of the six cities. Deficit and surplus amounts include operating and capital revenues and expenditures, and interest on debt. Amounts exclude transfers to and from reserves and principal repayments. Amounts also include capital revenues and expenditures of EPCOR and ENMAX, but exclude PPA and CSit purchases made in 2000 by both utilities.

FIGURE 5:
A Consistent Measure of Deficits/Surpluses
(1990-2000, in Thousands of Actual $)

	Vancouver	Edmonton	Calgary	Saskatoon	Regina	Winnipeg
1990	22,857	(100,958)	50,564	(11,621)	(601)	(83,422)
1991	24,063	(33,913)	20,900	3,637	(2,897)	(60,506)
1992	7,703	26,049	(22,398)	8,023	(6,262)	(80,336)
1993	(22,179)	(74,321)	(28,247)	20,157	(3,715)	(51,411)
1994	(107,585)	78,300	76,151	18,722	(5,811)	18,020
1995	(27,401)	63,039	48,488	(25,028)	962	(59,570)
1996	(222)	126,247	70,059	14,879	521	(14,030)
1997	(25,737)	100,653	150,532	881	376	68,783
1998	(28,016)	96,953	129,067	4,261	1,263	73,708
1999	(21,277)	(21,417)	14,601	14,157	10,773	58,784
2000	36,094	94,646	11,424	14,998	3,703	160,621

SOURCE: Derived by CWF from Annual Financial Reports of the cities (1990-2000), Annual Reports of EPCOR and ENMAX (1996-2000), DBRS and CBRS. Deficit and surplus amounts include operating and capital revenues and expenditures, and interest on debt. Amounts exclude transfers to and from reserves and principal repayments. Amounts also include capital revenues and expenditures of EPCOR and ENMAX, but exclude PPA and CSit purchases made in 2000 by both utilities.

FIGURE 6:
Comparison of Per Capita Deficits and Surpluses, 1990-2000
(All Figures in Actual Per Capita $)



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If deficits serve as a signal that a government's finances are under pressure and its fiscal health is deteriorating, then most western Canadian cities experienced at least some fiscal stress throughout the 1990s. While the level of stress varied between cities, each shared a common problem in that the stresses were not being communicated to the general public through the deficit signal. Although deficits have since given way to surpluses, turning the fiscal equation around takes effort. Many Canadians are likely unaware of just how difficult a time the 1990s may have been for our cities, especially considering other pressures such as reduced operating grants.

2. How Large Were the Deficits/Surpluses?

Whether or not a government runs a deficit or surplus is a key consideration, but even more important is the relative size of a deficit or surplus. Because the West's large cities differ widely with respect to population size, presenting overall deficit and surplus figures ignores the relative magnitude of the amounts involved. The fact is, a $10 million deficit for Calgary is not the same as a $10 million deficit for Regina. In *Figure 6*, all deficits and surplus figures have been converted into per capita dollars. For the West as a whole, there have been 26 deficits and 40 surpluses between 1990 and 2000. Half of the deficits were relatively small (under $50 per capita), one quarter were of moderate size ($50 to $100 per capita) and one quarter were quite large (over $100 per capita). With regards to surpluses, 17 have been small (under $50 per capita), 10 have been moderate ($50 to $100 per capita) and 13 have been large (over $100 per capita).

Scanning across the data, the most notable thing is the lack of congruency between cities – each appears to have had a unique experience with respect to the size of deficits and surpluses. Regina's deficits and surpluses have generally been very small, well under $50 per capita. Vancouver's deficits and surpluses were slightly larger. Two of Edmonton's four deficits were small, but two were quite large, reaching past $100 per capita. All of Edmonton's surpluses since the mid-1990s have been sizeable. Winnipeg's deficits in the early 1990s were consistently the largest across the West, but its surpluses have also been quite large, and in 2000 the City had the largest per capita surplus. Only Calgary and Saskatoon exhibit much similarity. Both issued two deficits in the decade, and with the exception of Saskatoon's 1995 results, all were under $50 per capita. The size of the two cities' surpluses since then have been roughly comparable, although Calgary's 1999 and 2000 results show it to have the smallest per capita surplus of any city across the West.

Another important measure is the relative size of a deficit or surplus to the size of a city's budget. A per capita surplus that is growing year over year may seem impressive, but the amount of "fiscal cushion" provided by any surplus is illusory if the overall budget is also increasing. To provide a more complete picture, *Figure 7* presents each city's deficits and surpluses as a percentage of total expenditure. In scanning across the data, three fiscal periods emerge.

The first period runs from 1990 to 1993. As noted earlier, this was a time marked by more deficits than surpluses. More important, half of the deficits were substantial in that they represented over 5% of the cities' total expenditure. At the same time, most of the surpluses were small, representing less than 5% of total expenditure. The second period (1994 to 1998) represents a reversal. During these years, there were fewer deficits than surpluses, and the deficits were smaller than in the previous period. In addition, well over half the surpluses exceeded 5% of total spending. The third period begins in 1999, and represents a modest step back toward the first period. While there have only been two small deficits registered by any of the six cities, the most recent surpluses have tended to be smaller.

FIGURE 7:
Deficits/Surpluses as a % of Total Expenditure
(Program, Interest and Capital Expenditures, 1990-2000)

	Vancouver	Edmonton	Calgary	Saskatoon	Regina	Winnipeg
1990	4.36%	(9.07%)	4.95%	(4.80%)	(0.32%)	(9.04%)
1991	4.38%	(3.04%)	1.93%	1.58%	(1.58%)	(6.63%)
1992	1.22%	2.32%	(2.00%)	3.41%	(3.27%)	(8.36%)
1993	(3.27%)	(6.53%)	(2.49%)	8.79%	(1.96%)	(5.46%)
1994	(13.89%)	7.23%	7.15%	7.97%	(2.94%)	1.93%
1995	(3.68%)	5.70%	4.25%	(8.57%)	0.49%	(5.60%)
1996	(0.03%)	11.18%	6.27%	5.69%	0.26%	(1.40%)
1997	(3.56%)	8.77%	12.99%	0.32%	0.18%	7.15%
1998	(3.52%)	8.11%	10.07%	1.49%	0.60%	7.52%
1999	(2.68%)	(1.69%)	1.01%	4.98%	5.23%	5.72%
2000	4.70%	6.96%	0.72%	4.90%	1.76%	16.73%

SOURCE: Derived by CWF from Annual Financial Reports of the cities (1990-2000), Annual Reports of EPCOR and ENMAX (1996-2000), DBRS and CBRS. Deficit and surplus amounts include operating and capital revenues and expenditures, and interest on debt. Amounts exclude transfers to and from reserves and principal repayments. Amounts also include capital revenues and expenditures of EPCOR and ENMAX, but exclude PPA and CSR purchases made in 2000 by both utilities. Capital expenditures for Winnipeg are the net amounts as presented in the city's financial statements.

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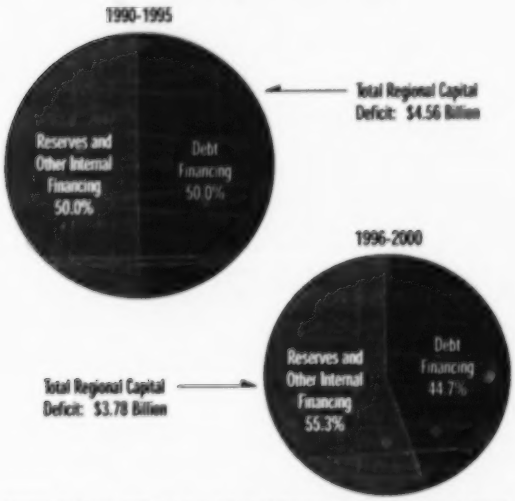
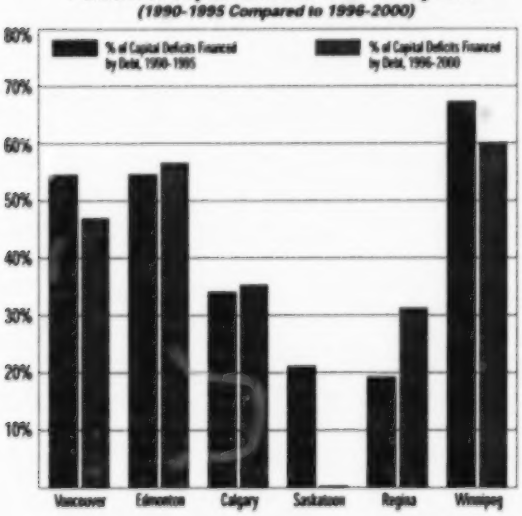
FIGURE 8:
Funding the Capital Deficit
(1990-1995 Compared to 1996-2000)


1990-1995
Total Regional Capital Deficit: $4.56 Billion
Reserves and Other Internal Financing 50.0%
Debt Financing 50.0%
1996-2000
Total Regional Capital Deficit: $3.78 Billion
Reserves and Other Internal Financing 55.3%
Debt Financing 44.7%

SOURCE: Derived by CWF from Annual Financial Reports of the cities (1990-2000), Annual Reports of EPCOR and ENMAX (1996-2000), DBRS and CBRS. Amounts include capital revenues and expenditures of EPCOR and ENMAX, but exclude PPA and CSR purchases made in 2000 by both utilities. Data also include capital expenditures and borrowing of EdTel (1990-1994) and the Edmonton Municipal Airport (1990-1995). Data for Winnipeg reflect the gross capital expenditure and revenue estimates as approved annually by city council.

FIGURE 9:
Percent of Capital Deficits Financed by Debt
(1990-1995 Compared to 1996-2000)



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With regards to the size of deficits and surpluses, the data present a more optimistic picture than is likely the case. Of the 17 large surpluses exceeding 5% of expenditure, more than half were posted by Edmonton and Calgary. The other four cities have typically posted small surpluses. Second, the CWF database reduced Edmonton and Calgary's expenditures to control for the creation of EPCOR and ENMAX, so the size of their surpluses relative to expenditure is overstated. Finally, Edmonton and Calgary's 2000 surplus figures exclude substantial one-time borrowings by EPCOR and ENMAX to finance *Power Purchase Agreements (PPAs)* and *Customer Service Rights (CSRs)* as part of Alberta's deregulated electrical industry.

3. How Have Cities Financed Deficits?

A budget deficit means a city is spending more than it is receiving. An important question, then, is how are the excess expenditures covered? No one, including governments, can spend what does not exist. In other words, deficits must be *financed*. Cities have two sources of funding a deficit – *external financing* (debt) or *internal financing* (drawing on reserves or accumulated surpluses in other funds).

Since the capital deficit drives a consolidated budget shortfall, the answer to the financing question depends heavily on how cities fund capital expenditures. In *Figure 8*, the capital deficits of all six cities were aggregated for each year, and the percentage funded by debt was then determined. In the first half of the decade, 50% of capital deficits were financed by debt. In the last half of the decade, this fell to 45%.

Turning to the individual cities, Vancouver, Saskatoon and Winnipeg relied less on debt in the last half of the decade compared to the first half, with Saskatoon having issued very little debt in the last five years *(Figure 9)*. The proportions for Edmonton and Calgary have increased slightly between the two periods, primarily driven by borrowing by EPCOR and ENMAX. While Regina appears to be bucking the larger regional trend, it is important to realize that the City has issued debentures in only four of the last eleven years. Because the largest borrowings took place in 1997, the data for Regina could have as much to do with the timing of capital expenditures than an overt policy of more debt financing.

The distinction between internal and external financing of the capital deficit is no small matter. When a city is able to fund an increasing portion of its capital purchases out of its own operating surplus and internal reserves, the city has more flexibility to plan and complete capital projects without relying on debt and the interest costs that will accrue to future operating budgets. As such, it can be argued that an increased reliance on "own source" capital financing is a small step forward in the fiscal health of western Canada's big cities.

FISCAL INDICATOR #2:
Big City Debt

Another indicator of fiscal health is the amount of debt a government is carrying, the types of debt that comprise the total amount, and whether debt is growing. Large debt loads that increase at a rate faster than budget revenues present a serious fiscal challenge in that more and more revenue must be committed to paying interest rather than providing services to citizens or renewing capital infrastructure.

1. How Much Gross Debt Do Cities Owe?

Figure 10 provides a debt profile for each city at the end of the 2000 fiscal year. The aggregate gross outstanding debt of the cities totals $6.7 billion. Gross debt can be broken down into a number of categories:

- **Tax-supported debt** funds capital needs that are non-commercial in nature (e.g. roadways) or capital requirements of operations that are subsidized by tax revenue (e.g. transit). This debt must be financed either in whole or in part by tax revenues.

- **Self-supported debt** funds the capital needs of operations that provide net income to a city after all expenses have been paid, including interest (e.g. city utilities). This debt has a direct link to specific revenues (e.g. user fees) and is not dependent on the tax base.

- **Contingent liabilities** are debts incorporated elsewhere but serviced by the city, or debt issued by the city but serviced by others. This debt can be either tax or self-supported, and is *contingent* in the sense that ultimate liability rests with the city in the event of default.

- **Benefit and pension liabilities** are amounts owed to current and former civic employees. The amounts will eventually be paid from future tax revenues.

- **Other debt** includes leases of equipment or buildings, mortgages, loan guarantees, and other amounts which a city is committed to pay sometime in the future.

2. How Much Net Debt Do Cities Owe?

At the end of fiscal 2000, the six western cities owed about $5.3 billion in aggregate net debt *(Figure 11)*. Of this amount, about $2.6 billion was issued directly by the cities themselves ($1.3 billion in tax-supported debt and $1.3 billion in self-supported debt). Vancouver is also responsible for an additional $378 million in tax-supported net debt issued by the Greater Vancouver Regional District (GVRD). A further $2.3 billion in self-supporting net debt is owed by Edmonton and Calgary through EPCOR and ENMAX.

FIGURE 10:
Gross Debt Profile of the Cities, 2000
(Thousands of Actual $)

	Vancouver	Edmonton	Calgary	Saskatoon	Regina	Winnipeg
Tax Supported Debt	436,395	55,315	485,830	1,061	4,912	721,003
Self Supported Debt	133,097	647,105	542,349	29,239	41,966	419,517
Contingent Liabilities	378,092	1,804,357	529,699	--	--	--
Benefits and Pensions	67,501	59,360	37,505	14,436	47,881	102,028
All Other Debt	25,487	--	--	--	14,360	69,373
TOTAL	1,040,572	2,566,137	1,595,383	44,736	109,119	1,311,921

SOURCE: Derived by CWF from Annual Financial Reports of the cities (1990-2000), EPCOR and ENMAX (1996-2000), DBRS and CBRS. For Vancouver, contingent liabilities include the prior year's estimate of GVRD debt. For Edmonton, they include long and short term debt of EPCOR (including PPA and CSR debt) and the remaining debt of EdTel still carried by the City. For Calgary, contingent liabilities include long term debt of ENMAX (including PPA amounts). Benefits and Pensions represent actual as well as estimated unfunded pension liabilities and future employee benefits.

FIGURE 11:
Net Debt Profile of the Cities, 2000
(Thousands of Actual $)

	Vancouver	Edmonton	Calgary	Saskatoon	Regina	Winnipeg
Net Tax Supported (City)	297,725	55,315	485,830	985	364	485,308
Net Tax Supported (Other)	378,092	--	--	--	--	--
Total Tax Supported	**675,817**	**55,315**	**485,830**	**985**	**364**	**485,308**
Net Self Supported (City)	82,885	261,001	542,349	25,743	39,908	302,111
Self Supported (Other)	--	1,761,621	529,699	--	--	--
Total Self Supported	**82,885**	**2,022,622**	**1,072,048**	**25,743**	**39,908**	**302,111**
TOTAL	758,702	2,077,937	1,557,878	26,728	40,272	787,419

SOURCE: Derived by CWF from Annual Financial Reports of the cities (1990-2000), EPCOR and ENMAX (1996-2000), DBRS and CBRS. All figures are net of sinking funds, except Vancouver, whose net debt amounts are equal to gross debt less debt held internally. Other tax-supported debt for Vancouver is the prior year's estimate of GVRD liabilities. (Many analysts do not include the debt of EPCOR and ENMAX in Edmonton and Calgary's net debt total because in 2000 it is more properly a contingent liability, and the interest costs of the debt are paid outside of the cities. However, we have included these amounts for three reasons. First, a portion of this debt has been issued in the names of Edmonton and Calgary. Second, ultimate responsibility for all of the debt rests with the cities. Third, the amounts need to be included for comparative purposes over time. The net debt of EPCOR also includes approximately $500 million in short-term borrowing to provide a better fit with ENMAX, which carries no short-term debt).

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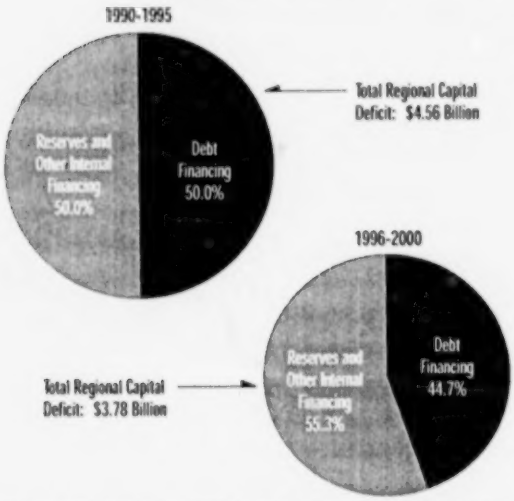
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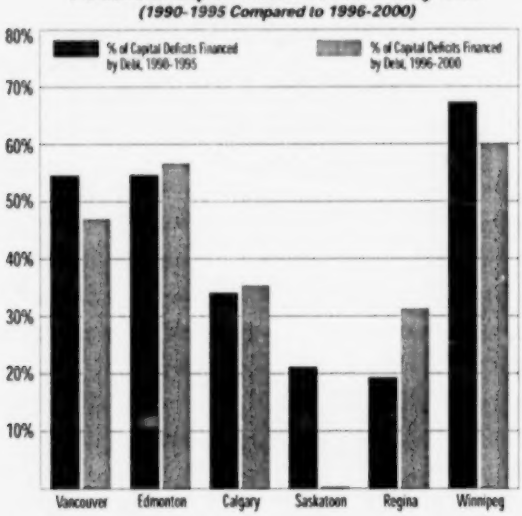


SOURCE: Derived by CWF from Annual Financial Reports of the cities (1990-2000), Annual Reports of EPCOR and ENMAX (1996-2000), DBRS and CBRS. Amounts include capital revenues and expenditures of EPCOR and ENMAX, but exclude PPA and CSR purchases made in 2000 by both utilities. Data also include capital expenditures and borrowing of EdTel (1990-1994) and the Edmonton Municipal Airport (1990-1995). Data for Winnipeg reflect the gross capital expenditure and revenue estimates as approved annually by city council.

With regards to the size of deficits and surpluses, the data present a more optimistic picture than is likely the case. Of the 17 large surpluses exceeding 5% of expenditure, more than half were posted by Edmonton and Calgary. The other four cities have typically posted small surpluses. Second, the CWF database reduced Edmonton and Calgary's expenditures to control for the creation of EPCOR and ENMAX, so the size of their surpluses relative to expenditure is overstated. Finally, Edmonton and Calgary's 2000 surplus figures exclude substantial one-time borrowings by EPCOR and ENMAX to finance *Power Purchase Agreements (PPAs)* and *Customer Service Rights (CSRs)* as part of Alberta's deregulated electrical industry.

3. How Have Cities Financed Deficits?

A budget deficit means a city is spending more than it is receiving. An important question, then, is how are the excess expenditures covered? No one, including governments, can spend what does not exist. In other words, deficits must be *financed*. Cities have two sources of funding a deficit – *external financing* (debt) or *internal financing* (drawing on reserves or accumulated surpluses in other funds).

Since the capital deficit drives a consolidated budget shortfall, the answer to the financing question depends heavily on how cities fund capital expenditures. In *Figure 8*, the capital deficits of all six cities were aggregated for each year, and the percentage funded by debt was then determined. In the first half of the decade, 50% of capital deficits were financed by debt. In the last half of the decade, this fell to 45%.

Turning to the individual cities, Vancouver, Saskatoon and Winnipeg relied less on debt in the last half of the decade compared to the first half, with Saskatoon having issued very little debt in the last five years *(Figure 9)*. The proportions for Edmonton and Calgary have increased slightly between the two periods, primarily driven by borrowing by EPCOR and ENMAX. While Regina appears to be bucking the larger regional trend, it is important to realize that the City has issued debentures in only four of the last eleven years. Because the largest borrowings took place in 1997, the data for Regina could have as much to do with the timing of capital expenditures than an overt policy of more debt financing.

The distinction between internal and external financing of the capital deficit is no small matter. When a city is able to fund an increasing portion of its capital purchases out of its own operating surplus and internal reserves, the city has more flexibility to plan and complete capital projects without relying on debt and the interest costs that will accrue to future operating budgets. As such, it can be argued that an increased reliance on "own source" capital financing is a small step forward in the fiscal health of western Canada's big cities.

FISCAL INDICATOR #2:
Big City Debt

Another indicator of fiscal health is the amount of debt a government is carrying, the types of debt that comprise the total amount, and whether debt is growing. Large debt loads that increase at a rate faster than budget revenues present a serious fiscal challenge in that more and more revenue must be committed to paying interest rather than providing services to citizens or renewing capital infrastructure.

1. How Much Gross Debt Do Cities Owe?

Figure 10 provides a debt profile for each city at the end of the 2000 fiscal year. The aggregate gross outstanding debt of the cities totals $6.7 billion. Gross debt can be broken down into a number of categories:

- **Tax-supported debt** funds capital needs that are non-commercial in nature (e.g. roadways) or capital requirements of operations that are subsidized by tax revenue (e.g. transit). This debt must be financed either in whole or in part by tax revenues.

- **Self-supported debt** funds the capital needs of operations that provide net income to a city after all expenses have been paid, including interest (e.g. city utilities). This debt has a direct link to specific revenues (e.g. user fees) and is not dependent on the tax base.

- **Contingent liabilities** are debts incorporated elsewhere but serviced by the city, or debt issued by the city but serviced by others. This debt can be either tax or self-supported, and is *contingent* in the sense that ultimate liability rests with the city in the event of default.

- **Benefit and pension liabilities** are amounts owed to current and former civic employees. The amounts will eventually be paid from future tax revenues.

- **Other debt** includes leases of equipment or buildings, mortgages, loan guarantees, and other amounts which a city is committed to pay sometime in the future.

2. How Much Net Debt Do Cities Owe?

At the end of fiscal 2000, the six western cities owed about $5.3 billion in aggregate net debt *(Figure 11)*. Of this amount, about $2.6 billion was issued directly by the cities themselves ($1.3 billion in tax-supported debt and $1.3 billion in self-supported debt). Vancouver is also responsible for an additional $378 million in tax-supported net debt issued by the Greater Vancouver Regional District (GVRD). A further $2.3 billion in self-supporting net debt is owed by Edmonton and Calgary through EPCOR and ENMAX.

FIGURE 10:
Gross Debt Profile of the Cities, 2000
(Thousands of Actual $)

	Vancouver	Edmonton	Calgary	Saskatoon	Regina	Winnipeg
Tax-Supported Debt	436,395	55,315	485,830	1,061	4,912	721,003
Self-Supported Debt	133,097	647,105	542,349	29,239	41,966	419,517
Contingent Liabilities	378,092	1,864,357	529,699	--	--	--
Benefits and Pensions	67,501	59,360	37,505	14,436	47,881	102,028
All Other Debt	25,487	--	--	--	14,360	68,373
TOTAL	1,040,572	2,566,137	1,595,383	44,736	109,119	1,311,921

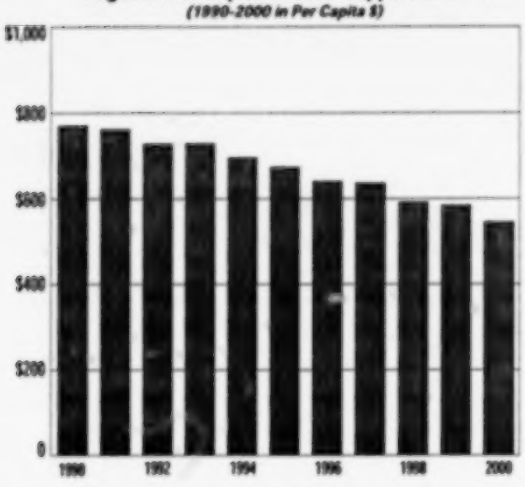
SOURCE: Derived by CIBF from Annual Financial Reports of the cities (1990-2000), EPCOR and ENMAX (1996-2000), DBRS and CBRS. For Vancouver, contingent liabilities include the prior year's estimate of GVRD debt. For Edmonton, they include long and short term debt of EPCOR (including PPA and CSR debt) and the remaining debt of EdTel still carried by the City. For Calgary, contingent liabilities include long term debt of ENMAX (including PPA amounts). Benefits and Pensions represent actual as well as estimated unfunded pension liabilities and future employee benefits.

FIGURE 11:
Net Debt Profile of the Cities, 2000
(Thousands of Actual $)

	Vancouver	Edmonton	Calgary	Saskatoon	Regina	Winnipeg
Net Tax-Supported (City)	297,725	55,315	485,830	985	364	485,308
Net Tax-Supported (Other)	378,092	--	--	--	--	--
Total Tax-Supported	**675,817**	**55,315**	**485,830**	**985**	**364**	**485,308**
Net Self-Supported (City)	82,885	261,001	542,349	25,743	39,908	302,111
Self-Supported (other)	--	1,761,621	529,699	--	--	--
Total Self-Supported	**82,885**	**2,022,622**	**1,072,048**	**25,743**	**39,908**	**302,111**
TOTAL	758,702	2,077,937	1,557,878	26,728	40,272	787,419

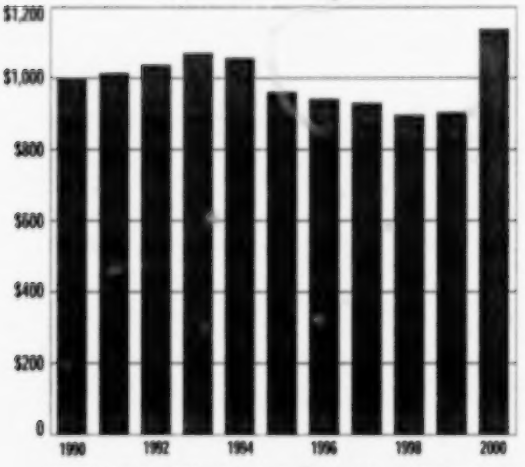
SOURCE: Derived by CIBF from Annual Financial Reports of the cities (1990-2000), EPCOR and ENMAX (1996-2000), DBRS and CBRS. All figures are net of sinking funds, except Vancouver, whose net debt amounts are equal to gross debt less debt held externally. Other tax-supported debt for Vancouver is the prior year's estimate of GVRD liabilities. (Many analysts do not include the debt of EPCOR and ENMAX in Edmonton and Calgary's net debt total because in 2000 it is more properly a contingent liability, and the interest costs of the debt are paid outside of the cities. However, we have included these amounts for three reasons. First, a portion of this debt has been issued in the names of Edmonton and Calgary. Second, ultimate responsibility for all of the debt rests with the cities. Third, the amounts need to be included for comparative purposes over time. The net debt of EPCOR also includes approximately $500 million in short-term borrowing to provide a ballot for with ENMAX, which carries no short-term debt).

FIGURE 12:
Regional Per Capita Net Tax-Supported Debt
(1990-2000 in Per Capita $)



SOURCE: Derived by CWF from Annual Financial Reports of the cities (1990-2000), DBRS, CBRS, and Statistics Canada. To produce the figure, the net tax-supported debt of each city was combined, and then divided by the total population of the six cities.

FIGURE 13:
Regional Per Capita Net Self-Supported Debt
(1990-2000 in Per Capita $)



SOURCE: Derived by CWF from Annual Financial Reports of the cities (1990-2000), Annual Reports of EPCOR and ENMAX (1996-2000), DBRS, CBRS, and Statistics Canada. To produce the figure, the net self-supported debt of each city was combined, and then divided by the total population of the six cities. Debt amounts include EPCOR and ENMAX debt (1996-2000), the debt of EdTel (1990-1994) and the Edmonton Municipal Airport (1990-1995).

Net debt is a more accurate measure of a city's debt load. First, all western cities, with the exception of Calgary, contribute regularly to sinking funds that retire debt when it comes due. Because sinking fund assets are dedicated to paying down debt, they can be subtracted from the gross amount to provide a better reading of the actual outstanding obligations. Some cities also borrow against their own reserves and accumulated surpluses in other funds. This *internally-held* debt is typically subtracted from gross amounts as well since the city owes this debt to itself. Second, net debt is concerned only with the long-term debt issued by a city to fund capital assets and infrastructure. As such, net debt represents the amount on which interest must be paid. A city might be paying amounts to fund future pension liabilities, for example, but these amounts are more discretionary and depend on the specific policies a city has established with regards to limiting its future exposure.

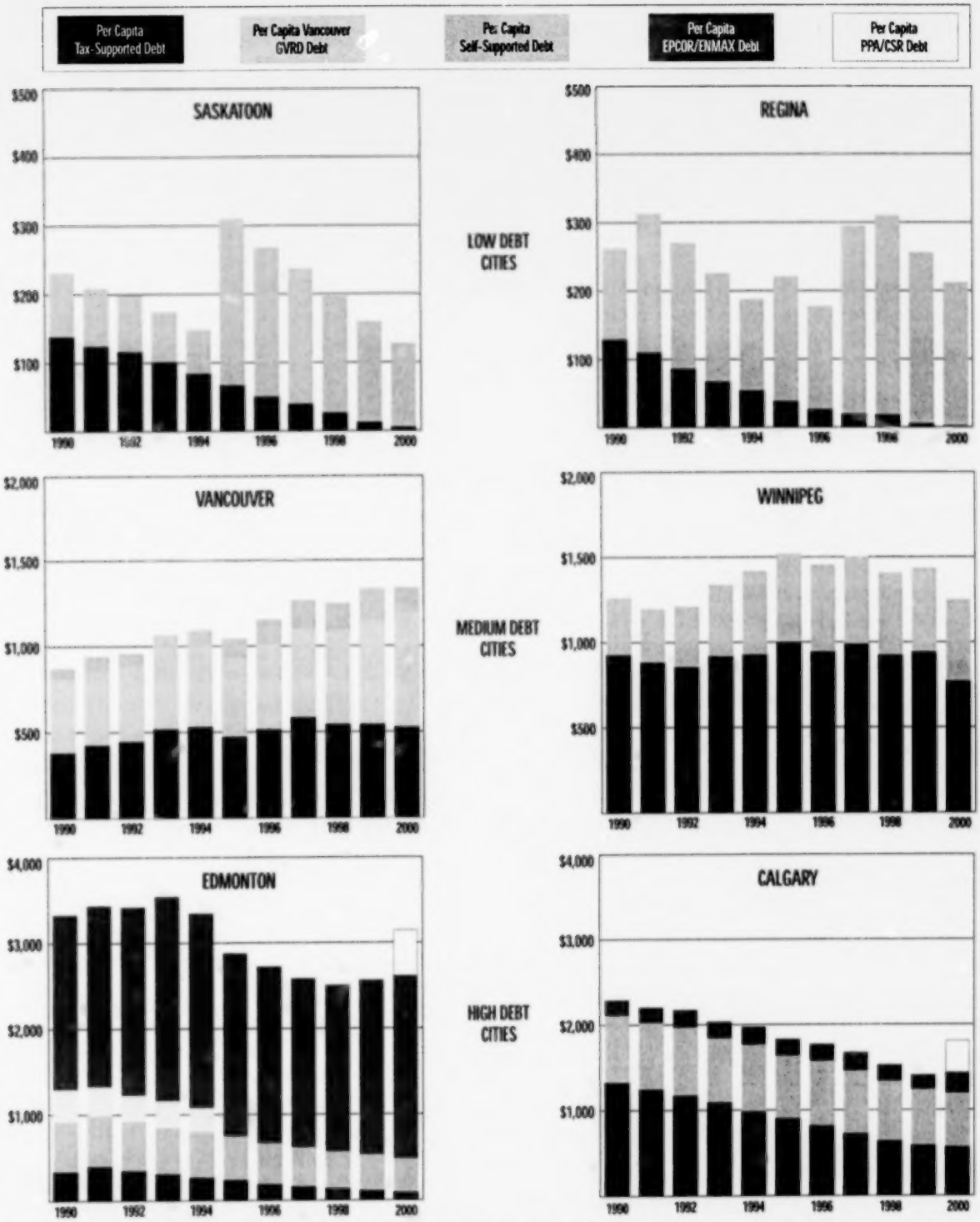
3. Are Tax and Self-Supported Debt Changing?

Cities typically draw a sharp distinction between net tax-supported and net self-supported debt. Net tax-supported debt depends on the municipal tax base, and is often viewed as a way to defer the paying of taxes to some point in the future. Because of this, net tax-supported debt is often seen to be a more pernicious form of debt than net self-supported debt. In aggregate terms in 1990, the total net tax-supported debt of the cities was 44% of the net debt outstanding. By the end of fiscal 2000, total net tax-supported debt had fallen to 32% of the net debt outstanding.

Clearly, the structure of big city debt is changing. *Figure 12* highlights the regional trend in net tax-supported debt for all the cities from 1990 to 2000. (The amounts in the figure represent the total net tax-supported debt of all the cities divided by the total population of the cities.) First, there has indeed been a significant reduction in terms of net tax-supported debt. At the beginning of the decade, the regional total of net tax-supported debt was about $772 per capita. By 2000, it had fallen to $546 per capita, a 29% reduction. More important, the decrease was both gradual and steady, suggesting that cities were applying consistent effort to reduce net tax-supported debt over the long term.

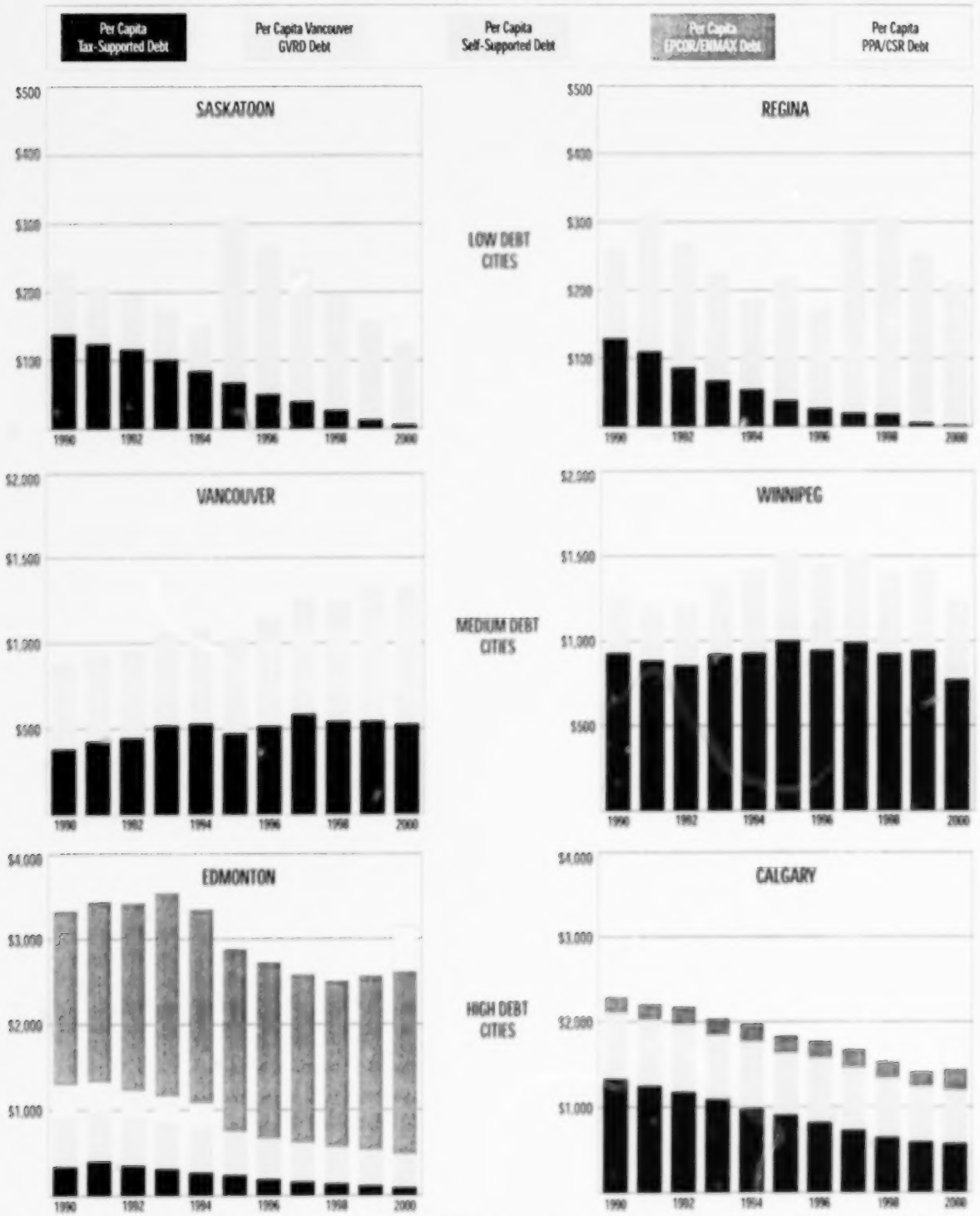
On the other hand, gains against the various types of net self-supported debt have been more modest *(Figure 13)*. The regional per capita total of net self-supported debt was about $1,000 in 1990, and this increased until 1993. Starting in 1994, regional per capita net self-supported debt totals began to fall slightly. The sharp spike seen in 2000 is largely the result of significant borrowing by EPCOR and ENMAX to secure power purchase agreements (PPAs) and customer service rights (CSRs) as part of Alberta' deregulated electrical industry.

FIGURE 14:
Per Capita Net Debt of the Western Cities, 1990-2000
(All Figures in Actual Per Capita $)



SOURCE: Derived by CWF from Annual Financial Reports of the cities, 1990-2000, DBRS, CBRS and Statistics Canada. All figures net of relevant sinking fund assets. EPCOR debt prior to 1996 is the debt carried by Edmonton's water and electrical utilities. ENMAX debt prior to 1998 is the debt of the Calgary Electrical System.

FIGURE 14:
Per Capita Net Debt of the Western Cities, 1990-2000
(All Figures in Actual Per Capita $)



SOURCE: Derived by CAP from Annual Financial Reports of the cities, 1990-2000; CMHC, CANSIM and Statistics Canada. All figures net of relevant sinking fund assets. EPCOR debt prior to 1996 is the debt carried by Edmonton's water and electrical utilities. ENMAX debt prior to 1998 is the debt of the Calgary Electric System.

4. How do Cities Differ on Debt?

Figure 14 provides a per capita net debt profile for each of the cities from 1990 to 2000. Because of the wide differentials that remain even when the data are presented in per capita terms, the scales in the figure have been adjusted so trends in each city can be more closely identified.

One conclusion leaps from the data – four of the West's cities are clearly engaged in a long-term program of tax-supported debt reduction, if not outright elimination. These cities are Saskatoon, Regina, Edmonton and Calgary. The levels of net tax-supported debt in both Saskatoon and Regina are very low, and it is conceivable for both cities to fully eliminate any net tax-supported debt within the year. Edmonton is also very close to eliminating its outstanding net tax-supported debt. While Calgary has certainly made progress on this front since 1990, it still has some distance to travel, with tax-supported debt remaining at $500 per capita.

Winnipeg and Vancouver are the outliers on the tax-supported debt front. Levels in Winnipeg have remained virtually the same, hovering around the $1,000 per capita mark for most of the decade. The City did, however, make a significant reduction in tax-supported debt in 2000. This is not surprising since Winnipeg also registered the largest surplus of any city in 2000.

Vancouver's net tax-supported debt has continually inched up throughout the decade, and once again demonstrates that city's unique position relative to other western cities. However, one must draw a distinction between tax-supported debt issued by the City itself and the proportion carried by the City for services provided by the GVRD. Tax-supported GVRD debt has grown faster than the tax-supported debt issued by Vancouver. GVRD debt has grown by 85% in actual dollars compared to only 64% for Vancouver's own tax-supported debt.

With regards to self-supported debt, trends are more varied. Saskatoon emerges as perhaps the most determined debt reducer of all the cities, whether the target is tax-supported or self-supported debt. From 1990 to 1994, Saskatoon's total net debt fell to $150 per capita. While self-supported net debt doubled in 1995 as the City sought financing for capital projects – likely in conjunction with the National Infrastructure Program – it has since continued on a downward trend.

Calgary is much like Saskatoon in that new self-supported debt has not been taken on to replace any gains made on the tax-supported debt side. Throughout the decade, the City of Calgary has been a consistent debt fighter, reducing the total level from a high of $2,200 per capita in 1990 to about $1,500 in 2000 (excluding PPA debt). This has paid considerable dividends to the City in the form of significant savings on interest.

Self-supported debt levels were on the rise in Edmonton during the early part of the decade, but in 1993 the City began reducing its debt considerably. The City made significant strides in 1995 when $178 million in debt owed by Edmonton Telephones was expunged from the books after the City sold the utility. Self-supported debt issued for city purposes, as well as for the electrical and water utilities that now comprise EPCOR, was also reduced throughout the decade. As a result, total per capita net debt moved from $3,500 in 1993 to about $2,500 in 1995. However, recent borrowing by EPCOR and significant debt assumed for power purchase agreements and customer service rights have caused debt to swell past the $3,000 per capita mark in 2000.

Because Regina's continual efforts against tax-supported debt have often been offset by jumps in self-supported debt levels, that City provides the best fit with the larger regional pattern of self-supported debt assuming room left by the reduction in tax-supported debt. Debt levels have fluctuated in Regina. Total net debt cannot be said to have increased substantially, but neither has it been on a consistent downward trend.

Traditionally, Vancouver's portion of self-supported debt has been low when compared to the other cities. In large part, this is the result of significant activities being provided by the GVRD. At the same time, the City has recently begun issuing more self-supported debt, with levels increasing from only $30 million in 1990 to over $80 million in 2000.

Clearly, the levels of debt carried by the big cities in the West differ sharply. To a large extent, this reflects the many different activities in which cities are engaged. But regardless of the level of debt, most cities in the West share one common feature – they seem to have acquired a mutual distaste for borrowing.

5. What About Reserves?

As noted earlier, cities define net debt as gross long-term debt less sinking fund assets and internally-held debt. But cities also have other cash-related assets that must be taken into account when arriving at an overall estimate of indebtedness. *Figure 15* puts each city's net debt in context by placing it alongside cash-related assets – cash, short-term investments, and marketable long-term investments such as stocks, bonds and treasury bills. A portion of these cash-related assets typically comprise the *reserve funds* of a city. While most of these reserve funds are restricted for specific purposes like future capital funding, they can be subtracted from the net debt to yield "non-extinguishable" debt. Non-extinguishable debt is the amount left outstanding if a city were to liquidate all of its cash-related assets in an attempt to reduce debt as quickly as possible.

According to *Figure 15*, Saskatoon has no non-extinguishable debt, and while Regina was in a minor debt position in 1990, the City now has more cash assets than debt. For all the cities, the amount of cash-related assets has grown throughout the 1990s, while at the same time the net debt itself was being paid back.

Federal and provincial governments tend to use a different but more comprehensive definition of net debt than do cities. For senior governments, net debt is total financial liabilities less total financial assets. To allow for comparability with senior government debt levels, the Canada West dataset includes a "net financial asset" position for each city – debt that is more comparable to provincial and federal amounts. *Figure 16* places each city's total financial liabilities against all of its financial assets. With the exception of Saskatoon and Regina, all big cities in the West are indebted, although there was continual improvement as the decade wore on.

With the exception of Vancouver, big cities across the West appear to have a policy prohibiting tax-supported debt, and they are attempting to keep self-sustaining debt low as well. The 1990s thus continue a pattern that some cities established in the early and mid-1980s before debt cutting became popular public policy. Some of the first governments in Canada to recognize the dangers of steadily increasing debt were western Canada's big cities. For example, Calgary started a long-term debt reduction program in 1985 and Edmonton followed a year later. Regina has always had a low level of debt, and Saskatoon's financial assets exceeded its liabilities every year during the 1990s.

At the same time, the data leave one wondering. How have cities managed to turn some rather large deficits into healthy surpluses? How have cities added to their cash reserves while simultaneously paying down their debt?

FIGURE 15:
Non-Extinguishable Debt of the Cities
(1990 Compared to 2000 in Thousands of $)

	Vancouver	Edmonton	Calgary	Saskatoon	Regina	Winnipeg
1990 Cash and Investments	219,141	96,690	351,344	78,407	31,794	157,693
1990 Total Net Debt	(117,343)	(2,018,720)	(1,586,867)	(42,620)	(45,910)	(785,083)
1990 Non-Ext Debt	(198,202)	(1,922,030)	(1,235,523)	0	(13,790)	(628,990)
2000 Cash and Investments	269,667	1,143,345	824,658	128,917	75,178	460,066
2000 Total Net Debt	(758,702)	(2,077,937)	(1,557,878)	(26,720)	(40,272)	(787,419)
2000 Non-Ext Debt	(489,035)	(934,592)	(733,220)	0	0	(327,353)

SOURCE: Derived by CWF from Financial Reports of the cities (1990-2000), Annual Reports of EPCOR and ENMAX (1998-2000), DBRS and CBRS. Cash and investments includes cash on hand, short-term and temporary investments, and long-term market(ble investments consisting primarily of stocks, bonds, and treasury bills. Cash does not exclude sinking fund assets, which are reflected in the net debt totals. (Total net debt is the total tax and self-supported debt for the year net of sinking fund assets or interest holdings.) Vancouver's debt includes prior year's estimate of GVRD debt. Cash and investments and the net debt of EPCOR and ENMAX (including PPA and CSR purchases) are also included for Edmonton and Calgary.

FIGURE 16:
Total Net Financial Assets of the Cities
(1990 Compared to 2000 in Thousands of $)

	Vancouver	Edmonton	Calgary	Saskatoon	Regina	Winnipeg
1990 Financial Assets	270,580	478,649	461,816	120,678	61,431	232,546
1990 Financial Liabilities	(550,977)	(2,545,408)	(1,889,104)	(72,858)	(71,402)	(979,162)
1990 Net Financial Assets	(280,397)	(2,066,759)	(1,427,288)	47,820	(9,971)	(746,616)
2000 Financial Assets	425,092	1,632,304	1,299,175	189,783	101,140	588,255
2000 Financial Liabilities	(1,004,242)	(2,841,885)	(2,474,094)	(77,395)	(75,659)	(1,116,889)
2000 Net Financial Assets	(579,150)	(1,209,581)	(1,184,919)	112,388	25,481	(528,634)

SOURCE: Derived by CWF from Annual Financial Reports of the cities (1990-2000), Annual Reports of EPCOR and ENMAX (1998-2000), DBRS, and CBRS. Financial assets exclude pre-paid expenses, deferred charges, physical assets such as land and inventory, and capital assets. Financial liabilities include long-term debt net of sinking fund assets and internally-held amounts, payables, and other financial obligations. Financial liabilities for Vancouver include the prior year's estimate of GVRD debt. Financial liabilities for Edmonton and Calgary include EPCOR and ENMAX debt. Total liabilities in 2000 for all cities is actually higher than stated in this figure. This is because every city now records additional liabilities such as employee benefits that were not recorded in 1990. The result of adding these liabilities has been a one-time reduction in financial equity for most cities. These data eliminate those liabilities to ensure consistency between 1990 and 2000.

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Federal and provincial governments tend to use a different but more comprehensive definition of net debt than do cities. For senior governments, net debt is total financial liabilities less total financial assets. To allow for comparability with senior government debt levels, the Canada West dataset includes a "net financial asset" position for each city – debt that is more comparable to provincial and federal amounts. *Figure 16* places each city's total financial liabilities against all of its financial assets. With the exception of Saskatoon and Regina, all big cities in the West are indebted, although there was continual improvement as the decade wore on.

With the exception of Vancouver, big cities across the West appear to have a policy prohibiting tax-supported debt, and they are attempting to keep self-sustaining debt low as well. The 1990s thus continue a pattern that some cities established in the early and mid-1980s before debt cutting became popular public policy. Some of the first governments in Canada to recognize the dangers of steadily increasing debt were western Canada's big cities. For example, Calgary started a long-term debt reduction program in 1985 and Edmonton followed a year later. Regina has always had a low level of debt, and Saskatoon's financial assets exceeded its liabilities every year during the 1990s.

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1990 Total Net Debt	(417,343)	(2,018,720)	(1,586,867)	(42,626)	(46,984)	(786,683)
1990 Non-Ext Debt	(198,202)	(1,922,030)	(1,235,523)	0	(15,190)	(628,990)
2000 Cash and Investments	269,657	1,143,345	824,658	128,917	75,178	460,066
2000 Total Net Debt	(758,702)	(2,077,937)	(1,567,878)	(26,728)	(40,272)	(787,419)
2000 Non-Ext Debt	(489,045)	(934,592)	(733,220)	0	0	(327,353)

SOURCE: Derived by CWF from Financial Reports of the cities (1990-2000), Annual Reports of EPCOR and ENMAX (1996-2000), DBRS and CBRS. Cash and investments includes cash on hand, short-term and temporary investments, and long-term marketable investments consisting primarily of stocks, bonds, and treasury bills. Cash does not include sinking fund assets, which are reflected in the net debt totals. (Total net debt is the total tax and self-supported debt for the year net of sinking fund assets or internal holdings.) Vancouver's debt includes prior year's estimate of GVRD debt. Cash and investments and the net debt of EPCOR and ENMAX (including PPA and CSR purchases) are also included for Edmonton and Calgary.

FIGURE 16:
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1990 Financial Liabilities	(558,977)	(2,545,408)	(1,889,104)	(72,858)	(71,402)	(979,162)
1990 Net Financial Assets	(280,397)	(2,066,759)	(1,427,288)	47,820	(9,971)	(746,616)
2000 Financial Assets	425,092	1,632,304	1,289,175	189,783	101,140	588,255
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SOURCE: Derived by CWF from Annual Financial Reports of the cities (1990-2000), Annual Reports of EPCOR and ENMAX (1996-2000), DBRS, and CBRS. Financial assets include pre-paid expenses, deferred charges, physical assets such as land and inventory, and capital assets. Financial liabilities include long-term debt net of sinking fund assets and internally-held amounts, payables, and other financial obligations. Financial liabilities for Vancouver include the prior year's estimate of GVRD debt. Financial liabilities for Edmonton and Calgary include EPCOR and ENMAX debt. Total liabilities in 2000 for all cities is actually higher than stated in this figure. This is because every city now records additional liabilities such as employee benefits that were not recorded in 1990. The result of adding these liabilities has been a one-time reduction in financial equity for most cities. These data eliminate those liabilities to ensure consistency between 1990 and 2000.

6. How Have Deficits and Debt Been Reduced?

FIGURE 17:
Changes in Regional Per Capita Revenues/Expenditures
(1990-2000 in Per Capita $)

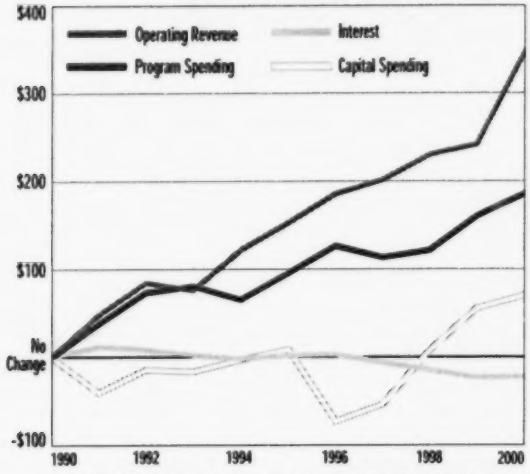

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FIGURE 18:
Cumulative Change in Revenues and Expenditures
(1990-2000 in Per Capita $)

	Vancouver	Edmonton	Calgary	Saskatoon	Regina	Winnipeg
Operating Revenue Change	+247.50	+526.32	+275.83	+272.99	+110.60	+437.86
Program Spending Change	+207.19	+194.72	+230.36	+86.14	+90.86	+182.49
Interest Costs on Debt	+4.02	+47.15	-127.25	-21.72	-24.91	+16.14
Capital Revenue Change	+28.80	+3.76	+28.39	+2.31	-19.96	+3.98
Capital Spending Change	+49.16	-21.76	+260.81	+76.04	+1.78	-48.40

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At the aggregate level, the single largest contributor to improved budget balances and reduced debt is the fiscal gains generated by increased per capita operating revenues. Per capita savings on interest have only produced modest fiscal gains. With regards to fiscal losses, increased program spending consumed more than half of the gains generated by increased operating revenues. As such, the real cost of reduced deficits and debt in the cities has been the level of capital spending. Measured in per capita terms, capital spending was relatively flat throughout the decade, and only marginal increases have been seen starting in 1998.

Turning to the individual cities, it is clear that the price in terms of capital spending is higher than the aggregate data reveal. As demonstrated in *Figure 18*, the great bulk of the increase in aggregate capital expenditure is the direct result of capital spending occurring in Calgary. Both Edmonton and Winnipeg have seen cumulative per capita reductions in their capital spending, and expenditures in Regina were flat. While Saskatoon and Vancouver have had a slight cumulative increase in per capita capital spending, Calgary is the only city managing to make any substantial expenditures, and most of them were very recent.

In terms of broad fiscal policy, all western cities seem to share a similar strategy – building a larger "cushion" within the operating budget by ensuring that operating revenues outpace increases in program expenditure. By keeping a lid on capital spending, the additional revenue was then used to eliminate deficits, increase surpluses, pay down debt, and contribute to reserves for the future. In many ways, this policy is designed to pay down debt while also creating a critical mass of "own source" capital funding for the future.

FISCAL INDICATOR #3:
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Cities spend large sums providing citizens with a variety of public goods and services, from traditional areas like police and fire protection to more modern concerns such as homeless shelters or community and family services. From a macro perspective, it is useful to consider three types of expenditure: interest on debt, program spending, and capital spending.

1. How Much Interest Do Cities Pay?

As a result of past borrowing, the six big cities in the West pay substantial sums in annual interest payments *(Figure 19)*. The aggregate total of all the interest paid by the six cities from 1990 to 2000 amounts to over $5.22 billion. It is sobering to realize that this amount is only $30 million less than the $5.25 billion in aggregate net debt outstanding at the end of fiscal 2000. In other words, during the 1990s, cities paid enough interest to roughly equal the net debt still outstanding.

Figure 20 shows the annual per capita interest cost for each city – the amount that must be paid through taxes and user fees collected on behalf of each individual citizen. Residents of Edmonton and Calgary have traditionally endured the highest interest bill, reflecting large sums of self-sustaining debt needed to finance large utility operations. In 1998, however, the City of Winnipeg's per capita interest costs moved past those of Calgary, a direct result of growing debt in Winnipeg and declining debt in Calgary. Regina, Saskatoon and Vancouver pay much less interest. However, the data for Vancouver may not have captured the full costs of servicing the City's portion of GVRD debt. (Taxes collected by the City on behalf of the GVRD simply flow through, and the City does not break out all the amounts that go toward servicing debt. As such, Vancouver's interest bill is likely higher than the data reveal.)

Only three cities (Calgary, Saskatoon, and Regina) have reaped any substantial benefits from a reduced debt load. Calgary has reduced its per capita interest bill by $125 over the last eleven years, while Saskatoon is paying $22 less per capita and Regina $25 less. These three cities may have seen an improved budget balance fuelled in part by lower interest costs (assuming the savings were not directly used to fund increased expenditures).

While some cities have saved on the cost of interest and others have not, all cities do report an interest bill that is smaller today when measured against total operating revenues *(Figure 21)*. Whether a city has paid down its net debt or not, growth in revenues has exceeded growth in interest. While the cost of interest remains substantial, it is clearly less burdensome for all the cities than it was eleven years ago.

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(Thousands of $)

	Vancouver	Edmonton	Calgary	Saskatoon	Regina	Winnipeg
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1991	30,029	172,077	189,320	5,666	7,995	94,300
1992	28,674	174,576	184,971	4,620	8,789	92,300
1993	26,621	161,716	178,352	4,138	8,293	102,200
1994	30,541	160,037	166,210	4,733	7,824	104,400
1995	31,747	174,866	158,187	5,555	8,663	109,600
1996	32,934	194,055	150,317	4,588	7,738	107,900
1997	40,221	176,466	141,629	5,068	8,997	104,700
1998	40,961	166,889	134,381	4,918	6,580	105,800
1999	38,132	158,169	125,827	3,510	6,016	107,900
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Total	367,897	1,827,618	1,749,323	51,851	83,179	1,138,640

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FIGURE 20:
Annual Per Capita Interest Cost
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	Vancouver	Edmonton	Calgary	Saskatoon	Regina	Winnipeg
1990	63.01	203.45	276.55	34.61	46.12	158.99
1991	61.83	279.95	267.18	30.45	44.62	150.83
1992	57.99	282.40	257.93	24.47	48.71	147.04
1993	53.07	257.92	245.08	21.54	45.64	162.20
1994	59.58	257.84	225.16	24.20	42.75	165.58
1995	60.55	284.39	211.18	27.89	47.00	173.80
1996	61.26	314.87	195.97	22.42	41.74	171.35
1997	73.52	281.68	179.16	24.95	48.29	166.77
1998	74.24	262.36	164.01	23.75	35.14	168.74
1999	68.33	243.98	149.37	16.85	31.97	171.73
2000	67.03	250.60	149.30	12.89	21.21	175.13
Total	700.41	2,919.44	2,320.89	264.02	453.19	1,812.16

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Eliminating deficits and paying down debt takes effort. To uncover how cities have accomplished this feat, changes in four specific revenue and expenditure streams can be analyzed: 1) operating revenue; 2) operating expenditure; 3) capital expenditure; and 4) interest on debt. Changes in any of these revenues or expenditures either produce a *fiscal gain* (helping reduce deficits and debt) or a *fiscal loss* (helping increase deficits and debt). In *Figure 17* each revenue and expenditure item for every city was aggregated, and then converted into per capita amounts by dividing the annual totals by the population of the six cities. The cumulative increase or decrease in the total regional per capita amounts for each revenue and expenditure item was then tracked from 1990 to 2000.

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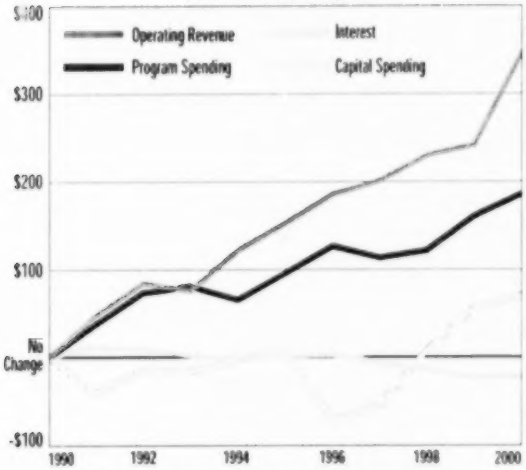

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2. How Much is Spent on Programs?

Spending by the six western cities on programs, goods and services is not insignificant. In 1990, the aggregate program spending of the six cities was $2.6 billion, and by 2000 this had increased by 35% to almost $3.5 billion *(Figure 22)*. For comparison, this amount equals two-thirds of the Government of Saskatchewan's entire program expenditures for fiscal 2000/01.

Clearly, western cities have increased program spending. However, this growth needs to be put in context. A growing population and an expanding economy naturally lift revenue while also creating demand for more local services. When the program expenditures of the six cities are aggregated, adjusted for inflation, and then converted into per capita amounts, it becomes clear that real per capita program spending actually fell between 1990 and 2000. In 1990, regional per capita program spending was about $1,000. By 2000, it had fallen to just over $950.

The extent to which each big city in the West reflects this regional pattern is shown in *Figure 23*. Only in Vancouver is real per capita program spending higher in 2000 than it was in 1990. Edmonton saw a continuous slide in real per capita program spending from 1990 to 1995. In 1996, the City increased spending by $100 million, causing a short-term spike in real per capita spending, after which the level again fell. In Calgary, real per capita program spending was in a constant slide until 1996, when it slowly started to increase. By 2000, the level of real per capita program spending had not reached 1990 levels for either Edmonton or Calgary. This trend is even more pronounced in Saskatoon and Regina, where real per capita program spending has been in a constant slide and has yet to recover. Winnipeg's real per capita spending is also lower.

The upshot of the data is that continually expanding municipal budgets provide no indication of a city's ability to finance itself in light of population increases, expansion in the economy, or inflationary pressures. To be sure, the data do not quantify the savings made by the cities as a result of restructuring efforts and innovations in public service delivery that have occurred at all levels of government since the mid-1990s. It may well be the case that western Canada's cities have been successful in their attempts to "do more with less", but the assumption remains unproven. As such, western Canadian cities may not possess the fiscal capacity to maintain service levels, much less enhance them. This conclusion comes into sharper focus when one considers that the baseline of the data is the 1990-1991 period, a time when the country was in the throes of recession and municipal spending may have already been at a much lower level than seen previously. If this indeed is the case, then our cities may be seriously underfunded, and claims to this effect made by civic leaders across the country would be clearly valid.

FIGURE 21:
Annual Interest Costs as % of Operating Revenue
(1990-2000)

	Vancouver	Edmonton	Calgary	Saskatoon	Regina	Winnipeg
1990	5.6%	13.7%	20.1%	2.8%	4.7%	12.1%
1991	5.4%	17.5%	18.8%	2.5%	4.6%	11.3%
1992	4.7%	17.3%	18.0%	1.9%	4.9%	10.7%
1993	4.2%	16.4%	17.1%	1.7%	4.6%	11.7%
1994	4.7%	15.1%	15.7%	1.9%	4.2%	11.4%
1995	4.8%	16.0%	14.9%	2.1%	4.5%	11.3%
1996	4.8%	16.4%	13.9%	1.7%	4.0%	11.1%
1997	5.9%	15.1%	12.0%	1.9%	4.5%	10.5%
1998	5.8%	14.0%	10.7%	1.7%	3.3%	10.5%
1999	5.1%	13.4%	9.9%	1.2%	2.9%	10.2%
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Regional Program Spending, 1990-2000
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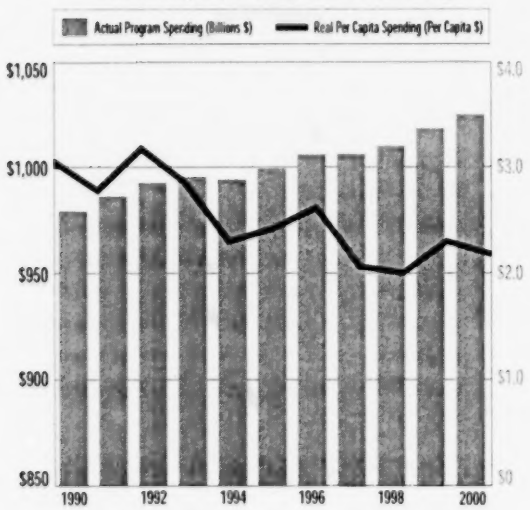

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1995	4.8%	16.0%	14.9%	2.1%	4.5%	11.3%
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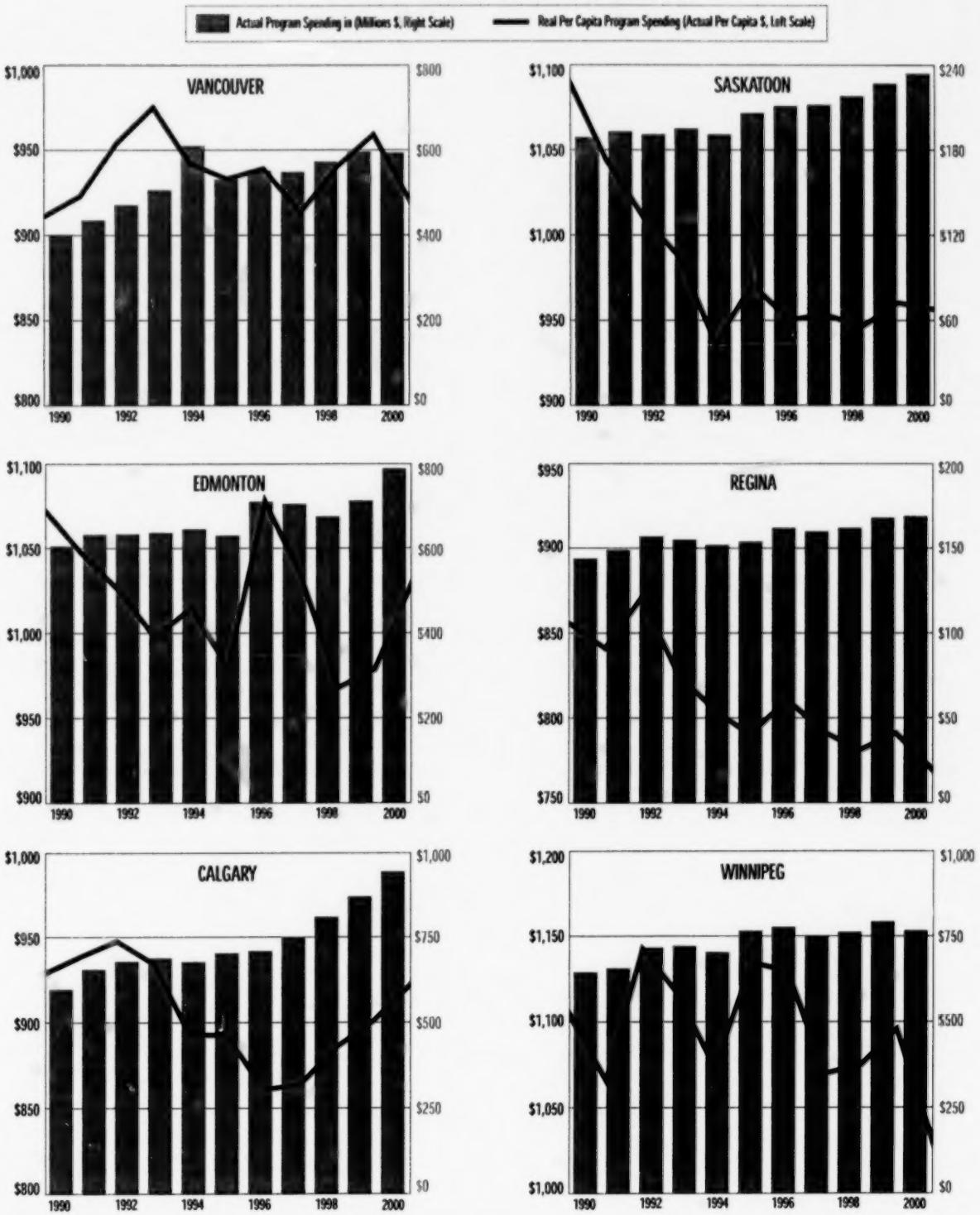
(All Figures in Millions of Actual $ Except Per Capita Amounts)



SOURCE: Derived by CWF from Annual Financial Reports of the cities, 1990-2000, DBRS, CBRS and Statistics Canada.

3. How Much is Spent on Capital?

The third type of city expenditure concerns the capital stock or "hardware" of a city, such as roads, sewers, and recreation facilities. Throughout the 1990s, much of the discussion on urban finance issues has revolved around capital expenditures, particularly whether cities have the financial resources to make critical investments in infrastructure, much less keep up with the maintenance required by existing and aging infrastructure. *Figure 24* provides a snapshot of capital expenditures made by the six big cities from 1990 to 2000. Throughout the decade, aggregate spending on capital has increased. But when the expenditures of the six cities are aggregated, adjusted for inflation, and then converted into per capita amounts, it becomes clear that real per capita spending on capital throughout the decade never reached levels registered in 1990. The data suggest that western cities may have built up a "capital deficit" in the 1990s.

The degree to which individual cities share in this regional trend is shown in *Figure 25* (note the varying scales). The cities can be grouped into two categories. The first category includes Edmonton, Regina and Winnipeg, each of which has seen a general reduction in real per capita capital spending over the decade. For these cities, spending is not only lower in 2000 than it was in 1990; in no year in between did spending exceed the 1990 levels. For these cities, 1990 was the high watermark.

The second category includes Calgary, Saskatoon, and Vancouver. In these cities, the level of real per capita capital spending is either the same or higher in 2000 than it was in 1990. However, each city's experience in the intervening years was different. Calgary saw four years where spending was the same as 1990, and four years where spending was lower. Only in 1999 did per capita capital spending increase significantly. Saskatoon saw seven years where spending was lower than 1990, two years where it was higher, and two where spending was the same. Vancouver appears to have the best record in terms of maintaining a consistent level of real per capita capital spending. Only in two of the ten years following 1990 was capital spending lower than 1990 levels.

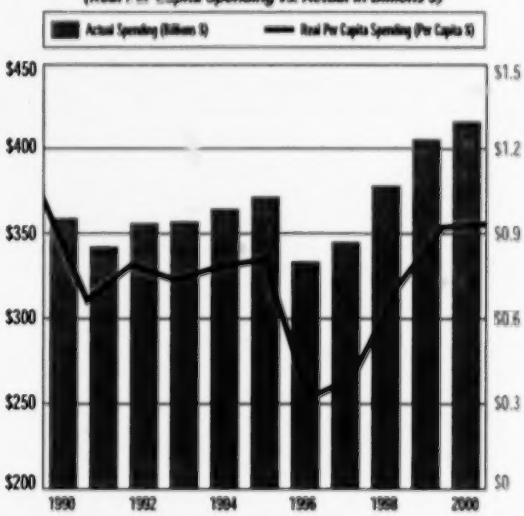
Three other interesting points emerge from the city-specific data. First is the direct correlation between capital spending levels and the deficits registered by cities. The years where capital spending was the highest are the same years where deficits were the largest or surpluses were the smallest. Clearly, the issue of capital spending has no small impact on whether a city is going to post a deficit or not.

Second, it is interesting to note the effects of the *National Infrastructure Program*, which can be clearly seen in Vancouver, Saskatoon, Regina, and Winnipeg. In these cities, the funding provided by the program caused a sharp spike in real per capita spending. At the same time, the program's effect was short-term, and did little to stop a steep slide in Winnipeg or the more general decline in Regina.

Third, even those cities that have managed to better maintain their level of capital spending need to be kept in context. In Calgary, for example, the general trend in capital spending was one of decline from about 1990 to 1997. Only in 1999 did real per capita capital spending increase appreciably. This raises the question of whether Calgary faces a "capital deficit." It is not clear if the recent increases in spending are enough to relieve pent up demand. Similarly, Saskatoon may have also created a "capital deficit" even if spending is the same in 1990 as it was in 2000.

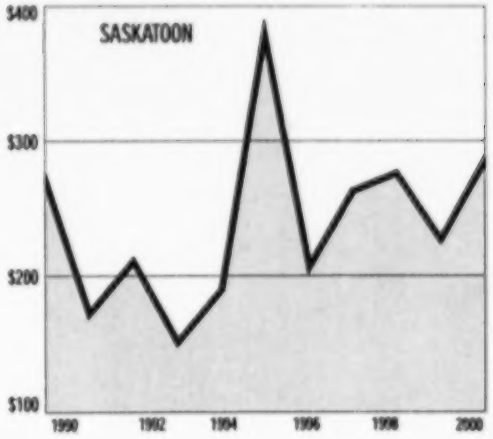
For most cities, then, the data raise serious questions about their ability to maintain a consistent level of capital spending, much less increase it. The record of three western cities in the 1990s is far from encouraging, and the record of two others can only be considered as moderate. Only Vancouver registered a generally positive result over the decade. However, Vancouver's higher level of real per capita capital spending has also come with a cost. Vancouver ran more deficits than surpluses during the decade, and is the only big city in western Canada whose debt has increased during the period. Apparently, this was a cost that other western cities were either unwilling or unable to pay.

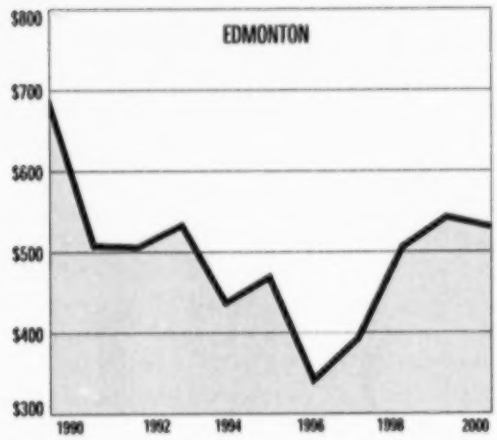
FIGURE 24:
Regional Capital Spending, 1990-2000
(Real Per Capita Spending vs. Actual in Billions $)

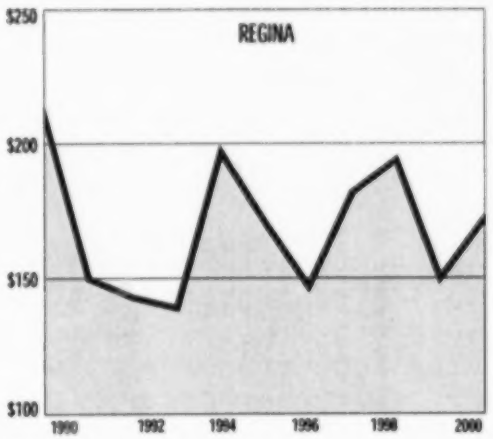


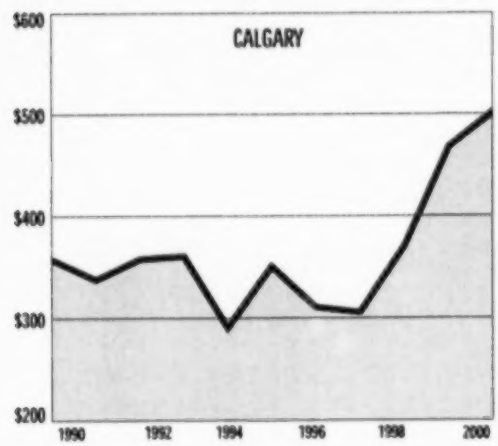
SOURCE: Derived by CWF from Annual Financial Reports of the cities (1990-2000), Annual Reports of EPCOR and ENMAX (1996-2000), DBRS, CBRS, and Statistics Canada. To produce the real per capita amounts, the total capital spending of each city was first converted into real dollars using the CPI for each city. These amounts were totalled, and then divided by the combined populations of the cities. For Winnipeg, amounts include the capital estimates as approved by council. Amounts include capital expenditures of EPCOR and ENMAX, but exclude PPA and CSR purchases.

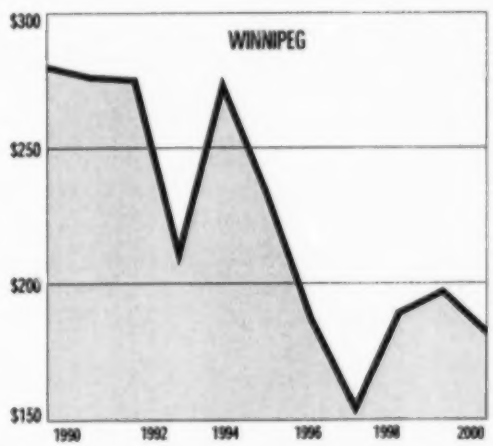
FIGURE 25:
Real Per Capita Spending on Capital and Infrastructure, 1990-2000
(All Figures in Real Per Capita $)











SOURCE: Derived by CWF from Annual Financial Reports of the cities (1990-2000), Annual Reports of EPCOR and ENMAX (1996-2000), DBRS, CBRS and Statistics Canada. Significant PPA and CSR purchases by EPCOR and ENMAX are not included. Amounts for Winnipeg are the capital estimates as approved annually by the city council.

FISCAL INDICATOR #4: Big City Revenues

City governments collect revenue from a wide variety of sources. The single largest source is the general property tax levied on residential and business properties. This is supplemented in most cities by a range of other taxes that can include a separate business tax, amusement taxes, or local improvement levies. Federal and provincial governments pay no property tax per se, but contribute "revenue-in-lieu" to the cities, as well as unconditional and conditional operating grants. User fees, municipal fines, licenses and permits, investment income and the operating surpluses of municipally-owned corporations form additional sources of revenue.

1. How Have Revenue Streams Shifted?

In 2000, western Canada's biggest cities together collected over $5.2 billion in operating revenue, up 45% from the $3.6 billion collected in 1990. However, not every source of revenue has equally contributed to this increase. Some sources have declined as a proportion of total revenue, while other sources have become much more important. Generally speaking, property taxes are becoming less important to western Canada's biggest cities, while operating grants from senior levels of government have been reduced dramatically *(Figure 26)*. Cities have made up the difference with an increased reliance on user fees and other revenues.

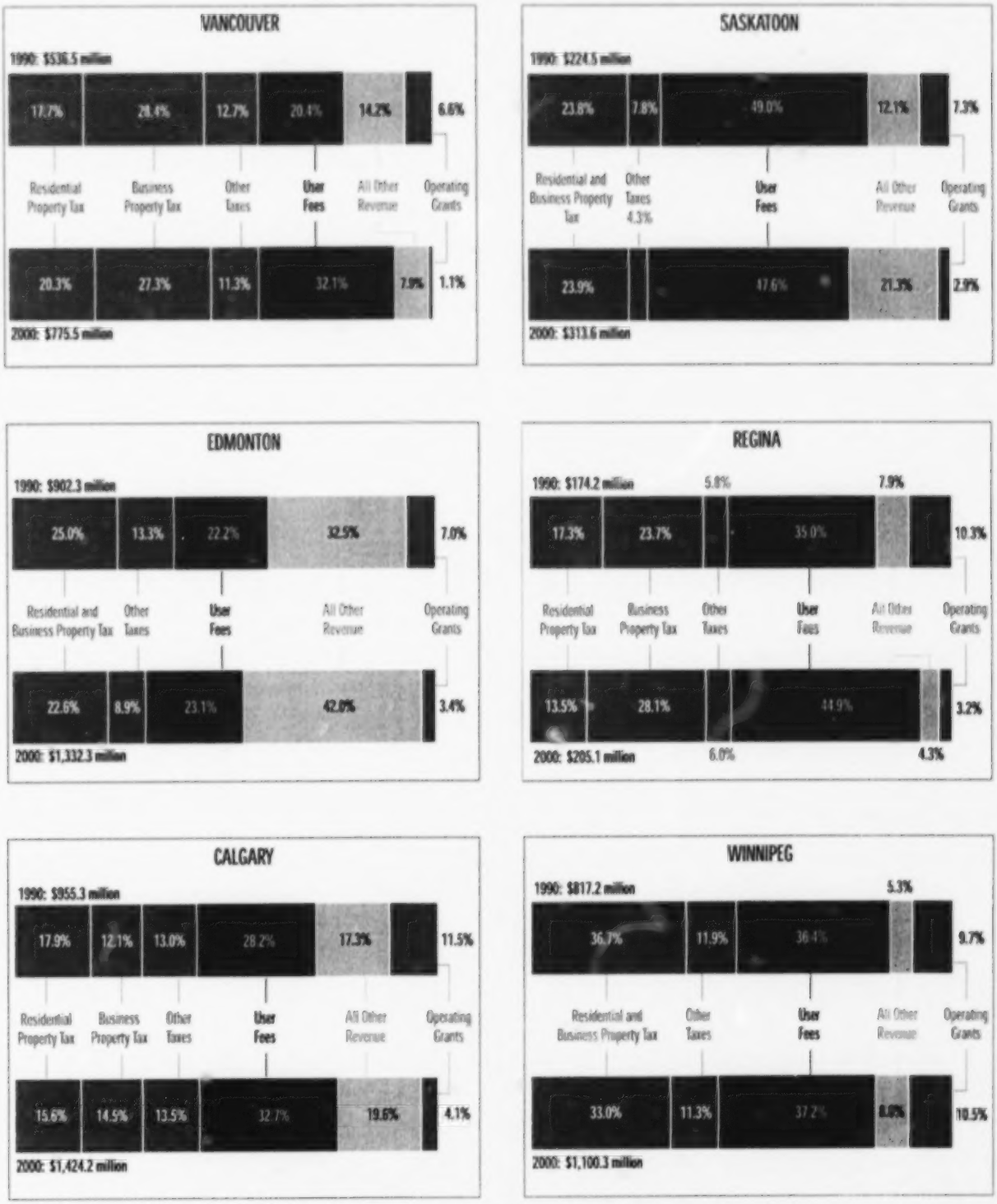
While elements of this general pattern can be found in most of the large cities across the West, a truly common experience remains elusive. The fact is, no two cities share the same shifts in revenue to the same extent. For example, the proportion of total revenue contributed by the general property tax (all business and residential property taxes less revenue-in-lieu) has stayed much the same from 1990 to 2000 for Vancouver, Calgary and Regina. But in Calgary and Regina, the residential property tax has become less important in 2000 compared to the business property tax. In Vancouver, it is the reverse. (This does not necessarily mean that Vancouver raised business property taxes and Calgary and Regina lowered them. It only means that the amount of revenue collected has changed. This could be due to a number of factors.) User fees are becoming more important for all three cities, and operating grants have fallen. But while other revenue sources have become less important to Vancouver and Regina, they have grown for Calgary. Primarily, this is the result of higher operating surpluses generated by ENMAX.

In Edmonton, Saskatoon and Winnipeg, the general property tax is contributing less to total revenue in 2000 than it did in 1990. But again, this is where the similarity between these three cities ends. The reduced importance of the property tax is much more pronounced in Edmonton than in either Saskatoon or Winnipeg, and while both Edmonton and Winnipeg are depending slightly more on user fees as a proportion of total revenue, Saskatoon is actually depending less on user fees. The biggest difference between these three cities occurs with respect to "other" revenue. In Winnipeg, this category has increased only slightly (from 5% in 1990 to 8% in 2000). In Saskatoon, the increase has been more pronounced. In 1990, Saskatoon's other revenue comprised 12% of the total, but in 2000 that had grown to 21%. This increase primarily reflects increased amounts received from developers.

In Edmonton, the amounts generated by the "other" category dwarf those of Saskatoon and Winnipeg, and indeed any other big city in the West. In 1990, other revenue in Edmonton constituted 33% of the City's total operating revenue. In 2000, the portion had risen to 42%. Much of the increase is directly related to amounts generated by Edmonton's utilities. In 1990, Edmonton Telephones earned $19 million in profit for the City after all operating expenses, interest, and capital expenditures for the year were paid. In 2000, the EdTel Endowment Fund (which received the proceeds of the sale of EdTel to Telus in 1994) pumped almost $76 million in investment income into the City. In 1990, Edmonton's water and electrical utilities produced an operating surplus of about $237 million (operating surplus is total operating revenue less operating expenditure excluding interest on debt or capital expenditures). In 2000, the operating surplus of EPCOR reached $416 million. Clearly, Edmonton maintains a unique advantage over other western cities. Because of its extensive utility operations and the way in which they have been managed during the decade, the City has escaped any increased reliance on property taxes or user fees.

A final difference between the cities occurs with respect to operating grants. For most large cities in the West, operating grants have declined as a percentage of total revenues. However, the same cannot be said for Winnipeg. In 1990, operating grants comprised 9.7% of Winnipeg's total operating revenue. In 2000, the proportion had increased slightly to 10.6%. Despite Winnipeg's unique position, operating grants remain a point of serious contention between cities and senior governments. A special focus on this issue is required.

FIGURE 26:
Growth in Operating Revenue and % Generated From Various Sources
(1990 Compared to 2000 in Actual $)



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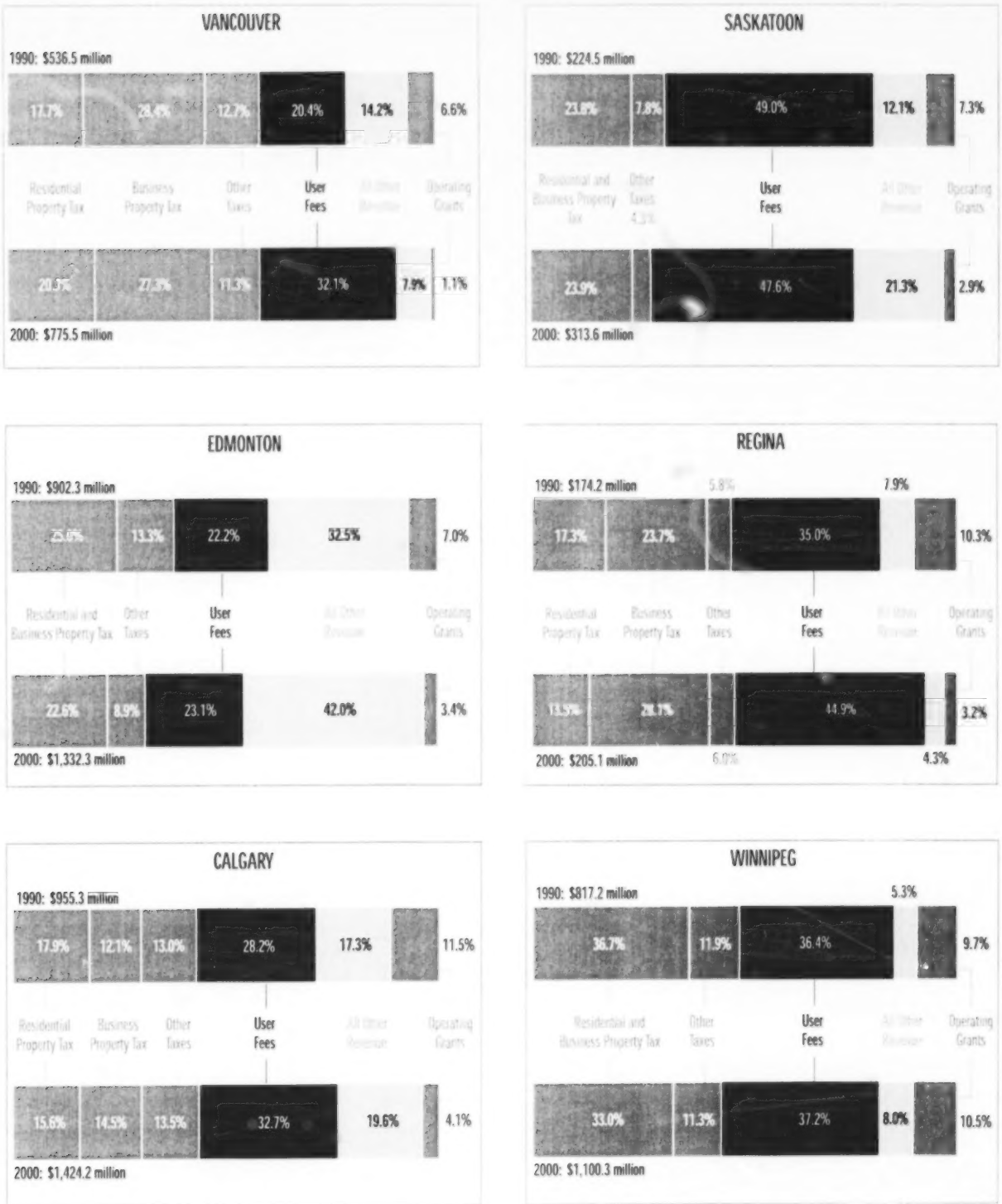


SOURCE: Derived by CWF from Annual Financial Reports of the cities (1990-2000), Annual Reports of EPCOR and ENMAX (1996-2000), DBRS, CBRS

2. How Much Have Operating Grants Been Cut?

Throughout the 1990s, the message from civic leaders has been that reduced support for municipal services from senior governments has placed cities under enormous financial strain. *Figure 28* provides a complete granting profile for each of the six large cities from 1990 to 2000, measured in real per capita dollars (note differing scales). The data capture the three main types of grants that cities receive – unconditional operating grants, conditional operating grants, and conditional capital grants.

For all cities across the West except Winnipeg, the value of grants in real per capita dollars has steadily been reduced. In 1990, Vancouver received a total of $90 in real per capita grants. This fell to about $15 in 2000. In Edmonton, unconditional and conditional operating grants remained steady at about $100 in real per capita terms from 1990 to 1992, but that fell to less than $50 by 1999. Calgary has reported reductions as well. Although operating grants were increased in 2000 and both cities have tapped into more conditional capital grants, the levels are far from what was received in the early 1990s. The same trend holds for Saskatoon and Regina.

An even more important aspect to this issue is the fact that unconditional grants have been reduced more than conditional grants. In Saskatoon and Regina, this trend makes perfect sense since most of their grants are unconditional in nature. But for the other cities, the reduction in unconditional grants poses a serious question regarding their fiscal autonomy.

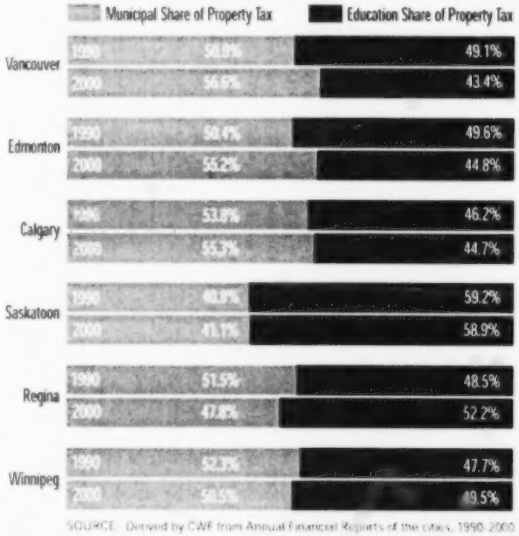
While the data regarding grants are helpful in understanding the financial stresses experienced by western Canadian cities, it is very difficult to get a firm handle on the issue. For some cities, grants were reduced when expenditures were "uploaded" to the province. While the CWF database eliminated most of these amounts (e.g. social services in Winnipeg and health costs in Vancouver), discrepancies still exist. In Saskatoon and Regina, for example, there is a noticeable drop in grants for both cities starting in 1997. This drop was at least partially offset by a reduction in expenditures when health responsibilities were transferred to newly-created regional health authorities. In addition, new revenue sharing schemes have recently taken hold in Vancouver (the sharing of provincial traffic fine revenue) and Calgary and Edmonton (the sharing of provincial fuel tax revenue). These new revenue sharing formulas are intended to offset lower grants. At the same time, these are only recent measures, and the general pattern of decline started much earlier. For most cities, it is clear that the 1990s was an era of reduced granting support from senior governments.

3. What About Education Taxes?

Another issue affecting municipal-provincial relations is the sharing of property tax room between municipalities and local school boards. From a municipality's perspective, this "competition" places them at a political disadvantage in that tax increases generated from the education side are blamed on the municipality (which issues the tax notice). Municipalities are at an economic disadvantage when attempts to reduce property taxes are nullified by school boards that move in and eat up the tax savings. This issue received no small degree of attention in a brief submitted to the Saskatchewan Government by the City of Regina in 2001. The brief showed the education share of property taxes rising from 1981 to 2000 in Alberta (45% to 50%), Saskatchewan (49% to 53%) and Manitoba (43% to 48%). Only municipalities in British Columbia saw a decrease over the period (City of Regina, 1999).

When considering only the large cities, our data imply that most of the education increase can be traced back to the 1980s. The portion of school taxes as a percentage of the local property tax fell slightly in the 1990s for Vancouver, Edmonton, Calgary and Saskatoon *(Figure 27)*. However, this pattern does not hold for Winnipeg and Regina. Both have found themselves increasingly "crowded out" of the property tax, which explains Regina's ongoing concern with the issue.

FIGURE 27:
Municipal and Education Property Taxes
(1990 Compared to 2000)



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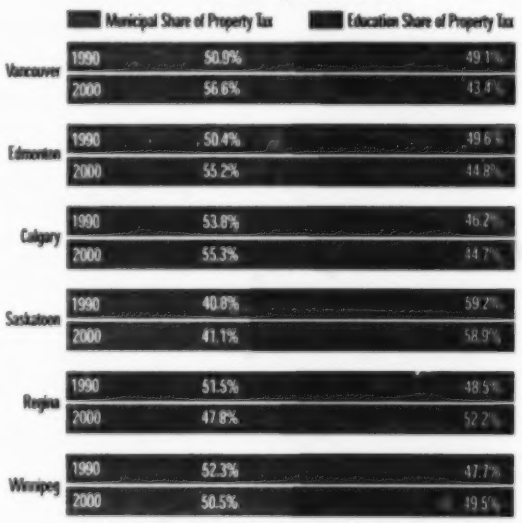
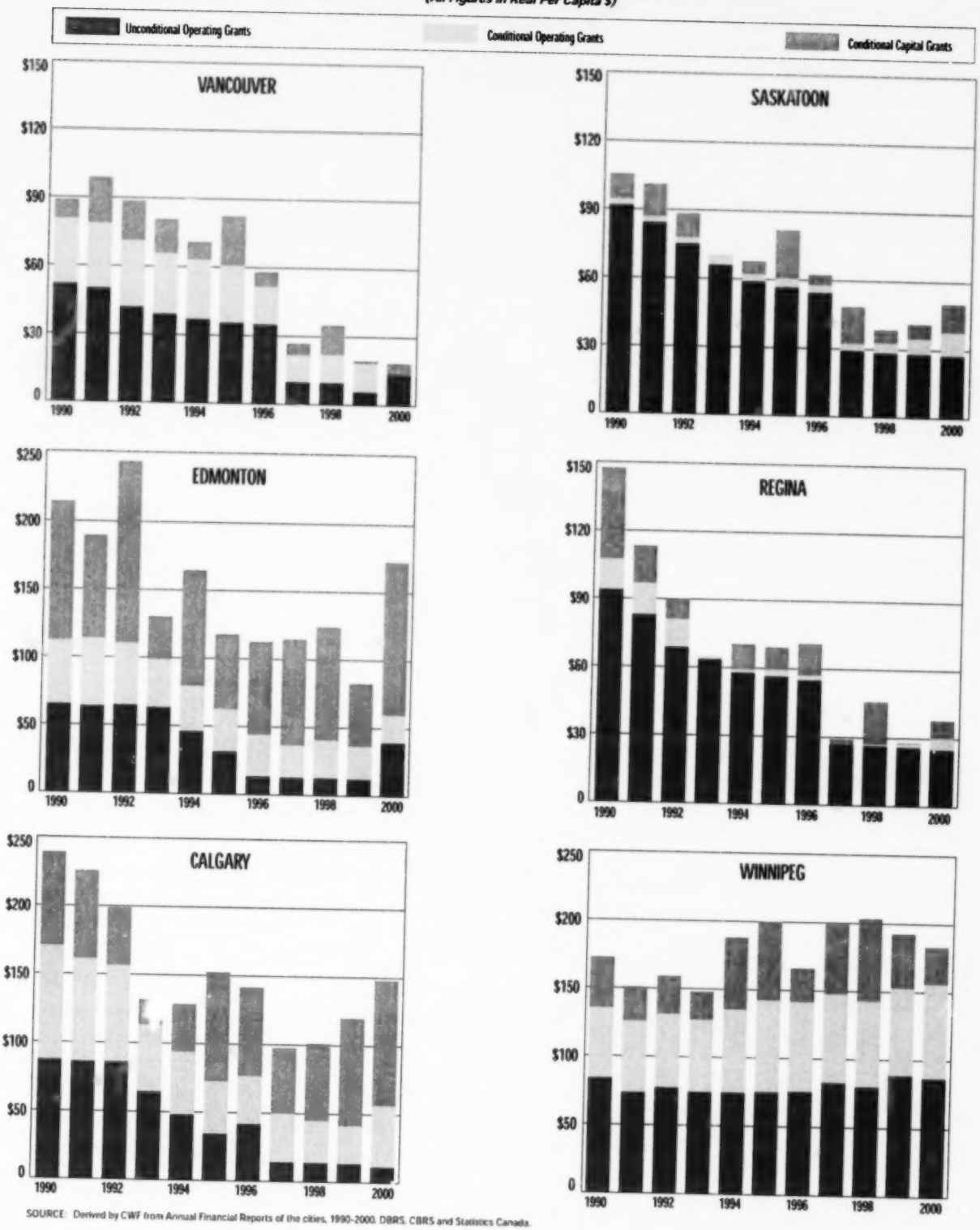


SOURCE: Derived by CWF from Annual Financial Reports of the cities, 1990-2000.

FIGURE 28:
Unconditional and Conditional Operating and Capital Grants, 1990-2000
(All Figures in Real Per Capita $)



SOURCE: Derived by CWF from Annual Financial Reports of the cities, 1990-2000, DBRS, CBRS and Statistics Canada.

4. How Have City Revenues Grown?

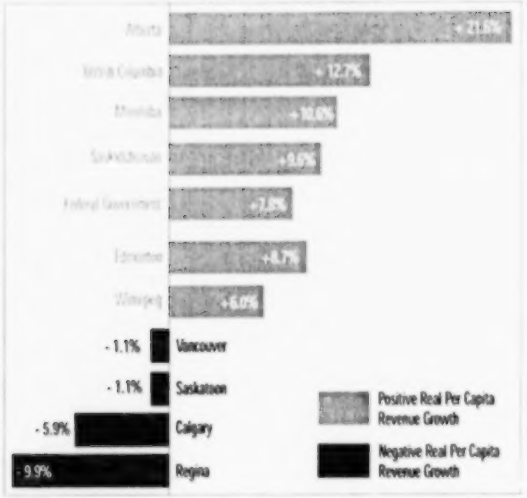
Do cities benefit from a steadily increasing population, and are they able to tap into an expanding economy that lifts revenue and offsets the costs of growth? The answer is not really – certainly not to the extent that senior governments benefit *(Figure 29)*. From 1990-2000, real per capita revenues for all senior governments increased, while only Edmonton and Winnipeg saw a real per capita increase in total operating revenue. Both cities are special cases. Edmonton has a revenue source unavailable to other cities (EPCOR and the EDTel Endowment Fund) and Winnipeg was the only city spared cuts in operating grants.

To be sure, some provincial revenues have ballooned through increased natural resource revenues, but *Figure 30* shows that a wide gulf also exists between the growth potential of city taxes and federal and provincial taxes. Corporate income and sales taxes are very responsive to economic growth, and all senior governments except Alberta saw increases in real per capita personal income tax revenue.

At first glance, the data might seem one-sided. First, they fail to capture amounts being returned to cities via federal and provincial spending. Quantifying these amounts could change our original conclusion that cities are losing, but it is also possible that it would strengthen our case. Because federal and provincial program spending has been significantly reduced in real per capita terms since 1990 (Ottawa has cut program spending by 20%, Alberta by 17%, British Columbia by 2%, Saskatchewan by 11% and Manitoba by 10%), it is clear that a good portion of increased senior government revenues has gone to deficit reduction and debt repayment rather than spending. But even if the additional senior government revenue was used for spending in the cities, it would not have been spent on municipal services or infrastructure. Second, the data fail to control for bracket creep and provincial tax rate increases. However, a quick scan of provincial tax rates over the decade shows that all eight major provincial tax rate increases occurred between 1991-1993, and more than sixteen major reductions occurred from 1994-1999. In other words, tax rate increases could be more than offset by tax rate decreases, strengthening our point. More important, provinces that have left tax rates alone or even reduced them (e.g. Manitoba's sales tax rate and its corporate income tax rate) still demonstrate strong revenue growth.

Clearly, city revenues fail to keep pace with growth, and much of the failure can be explained by the fact that their tax base is limited to the property tax, which links only to one aspect of the economy – real estate. Provincial and federal taxes capture the full range of economic activity that constitute the provincial and national GDP, and have built-in mechanisms that respond to growth. In short, population growth and the pressures of a growing economy are less a gain for cities and more of a burden. Cities pay for the growth and provincial and federal governments reap the rewards.

FIGURE 29:
Real Per Capita Growth in Revenue
(% Change From 1990 to 2000)



SOURCE: Federal and provincial amounts derived by CWF from federal and provincial budget documents, DBRS, and Statistics Canada. City data derived by CWF from Financial Reports of the cities (1990-2000), Annual Reports of EPCOR and ENMAX (1996-2000), DBRS and CBRS.

FIGURE 30:
Growth in Specific Tax Revenues, 1990-2000
(% Change in Real Per Capita $ and Actual Real Per Capita Change)

	Federal	BC	AB	SK	MB
Personal Income Tax	+4.7% ($103.57)	+1.8% ($23.70)	-4.9% ($66.85)	+1.6% ($16.40)	+17.0% ($188.12)
Corporate Income Tax	+80.0% ($362.88)	+56.1% ($133.45)	+69.8% ($236.37)	+183.6% ($391.24)	+77.7% ($273.57)
Retail Sales Tax	+17.7% ($104.28)	+18.9% ($124.66)	--	+12.9% ($70.38)	+17.8% ($103.89)
All Other Taxes	-5.0% ($4.17)	-17.2% ($111.50)	+6.4% ($23.71)	+34.4% ($104.61)	-14.0% ($46.33)

	Vancouver	Edmonton	Calgary	Saskatoon	Regina	Winnipeg
General Property Tax	+2.0% ($11.42)	-1.8% ($7.66)	-5.5% ($24.49)	-0.7% ($2.75)	-8.4% ($32.80)	-4.5% ($20.45)
All Other Taxes	-11.9% ($34.89)	-27.6% ($53.64)	-2.0% ($1.82)	-45.0% ($46.64)	-6.1% ($5.57)	+0.7% ($1.14)
User Fees	+55.9% ($138.67)	+13.3% ($47.38)	+9.1% ($38.17)	-3.9% ($11.51)	+15.3% ($55.81)	+8.3% ($42.14)
Other Revenue	-45.3% ($34.49)	+40.5% ($210.22)	+6.4% ($16.40)	+73.7% ($115.40)	-51.4% ($44.09)	+57.6% ($42.51)

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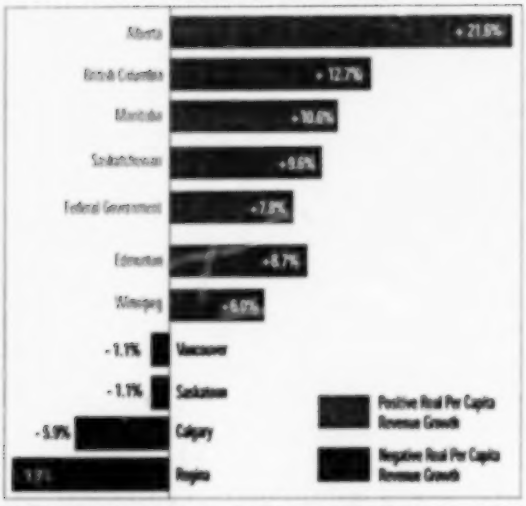

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Corporate Income Tax	+80.0% ($362.88)	+56.1% ($133.45)	+60.8% ($238.37)	+183.6% ($491.24)	+77.7% ($273.57)
Retail Sales Tax	+17.7% ($104.28)	+18.9% ($124.66)	--	+12.9% ($70.36)	+17.8% ($103.99)
All Other Taxes	-5.0% ($46.11)	-17.2% ($117.53)	+6.4% ($23.71)	+34.4% ($104.61)	-14.0% ($66.33)

	Vancouver	Edmonton	Calgary	Saskatoon	Regina	Winnipeg
General Property Tax	+2.0% ($11.42)	-1.8% ($7.45)	-5.5% ($24.69)	-0.7% ($2.15)	-8.4% ($32.80)	-4.5% ($22.95)
All Other Taxes	-11.9% ($19.39)	-27.6% ($58.84)	-2.0% ($3.02)	-45.0% ($45.61)	-6.1% ($3.07)	+0.7% ($1.14)
User Fees	+55.9% ($138.67)	+13.3% ($47.38)	+9.1% ($38.77)	-3.9% ($24.57)	+15.3% ($65.91)	+8.3% ($42.14)
Other Revenue	-45.3% ($79.23)	+40.5% ($210.22)	+6.4% ($16.48)	+73.7% ($115.48)	-51.4% ($43.09)	+57.6% ($42.51)

SOURCE: Federal and provincial amounts derived by CWF from federal and provincial budget documents, OBRS, and Statistics Canada. City data derived by CWF from Financial Reports of the cities (1990-2000), Annual Reports of EPCOR and ENMAX (1996-2000), OBRS and CBRS.

CONCLUSIONS

Canada West Foundation's analysis of municipal finance reveals that the West's big cities have experienced numerous stresses over the 1990s, due in large part to declining grants and the inability of tax revenues to grow alongside population increases and the service demands created by economic expansion. In response, cities have reduced real per capita program spending and real per capita capital spending has generally been flat. Cities are also increasing their reliance on user fees, sales of service, and larger profit margins produced by their utility operations.

However, communicating these fiscal stresses is frustrated by a lack of consistency in municipal financial information. Most western cities now follow PSAB guidelines for their financial reporting, and this has removed much of the fog from their financial reports. However, sufficient historical data based on the PSAB approach are lacking. Cities must publish in their annual financial reports a set of fiscal data stretching back at least 10 years. A potential model is the Alberta Government, which publishes 20 years of fiscal data in its budget documents.

PSAB standards provide clarity by capturing all government revenues and expenditures in the year they are made. But the standards also present cities with a public relations challenge. City budgets are much more capital intensive than either provincial or federal budgets. In 2000, for example, Calgary spent $436 million on capital (excluding ENMAX), representing 29.4% of its total outlay (Calgary, 2000: 13). On the other hand, the Province of Alberta spent $1.6 billion on capital, representing only 9.2% of its $17.4 billion budget (Alberta 2000: 45). There is a significant difference between a government whose borrowing is limited to one-time capital expenditures and a government whose borrowing essentially pays the provincial payroll. As such, a city deficit is not comparable to a provincial or federal one, yet the public likely draws little distinction between the two. The challenge for cities is not to become too reluctant to run the occasional deficit fearing a public outcry; if they do, capital may become starved. Cities must meet the challenge of explaining what municipal deficits mean, and why they might be necessary from time to time.

There is evidence to suggest that revenues in western Canada's cities fail to keep pace with population growth or an expanding economy. For local governments, a rapidly growing population may be more of a fiscal disadvantage than an advantage. Cities need access to a stream of revenues that is much more closely linked to the economy. If cities continue to bear the brunt of the cost associated with expanding populations and the demands of a growing economy, their ability to provide adequate municipal services and infrastructure to both citizens and businesses will always be insufficient. The result will be a loss of competitiveness for the city, which also impacts the larger provincial and national economies.

The fact that many cities reduced their net debt in an era when grants were cut and revenues were sluggish demonstrates the fiscal determination and resilience of our cities. However, there is a key question issuing from the data: are some cities attacking debt too fiercely? A city completely free of debt should not be the ultimate goal of fiscal policy, regardless of how well it plays with the public. This is especially the case if the fiscal trade-off is an underfunded stock of capital assets and infrastructure. While the "pay-as-you-go" approach is arguably healthier for a city fiscally, it may not contribute to the overall health of the city, which encompasses more than the balance sheet. The fact is, there are good reasons for cities to assume modest levels of debt. The appropriate levels of city debt need to be opened to vigorous debate and discussion. If the interest needed to finance the debt does not overly burden the operating budget by crowding out other expenditure priorities, debt is a reasonable way to spread the costs of capital investments over the life of the asset.

Total "pay-as-you-go" funding for all tax-supported capital expenditures puts the cost on today's generation for benefits that flow well into the future. Complete debt financing gives the generation building the capital stock a "free ride." The issue is very much one of finding the right balance.

The challenge for western Canadian municipal, provincial and federal governments is to find the funding mechanisms to ensure that city services and infrastructure are able to keep pace with urban growth, while at the same time protecting local government autonomy. This will require considerable shifts in provincial and federal attitudes toward the role and status of municipal governments. For their part, city governments need to be cautious in their approach to debt while at the same time recognizing the inherent pitfalls in the "pay-as-you-go" strategy of capital financing.

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APPENDIX 1: Methodological Issues Affecting the Cities

1. Vancouver

From 1990 to 1999, Vancouver made several adjustments to its consolidated presentation, and then a wholesale shift by adopting PSAB standards in 2000. Both disallowed the use of past consolidated statements for comparative purposes. All revenue and expenditure data for the City were generated from its General Revenue Fund (GRF) and revenues were increased by an amount labeled "Net Proceeds From Other Funds", which represents the net revenue generated from the City's other funds. Adding this amount to the total GRF revenue and the net capital expenditure produces a consolidated balance.

Vancouver also used to net certain expenditures from conditional grants, user fees, and other miscellaneous income. This approach was abandoned in 2000. For prior years, these grants, user fees, and other external recoveries have been added to revenues, and expenditures were increased by the same amount. This ensures a closer fit with the 2000 presentation. Conditional health grants, user fees and other income totalling some $35 million by 1996 were not added, however. These revenues and the expenditures associated with them were transferred to the province in 1996.

Vancouver citizens also pay taxes for services provided by the Greater Vancouver Regional District (GVRD), the BC Assessment Authority, and Translink. The City does not include these amounts because they simply "flow-through." Since these amounts do reflect the costs of providing municipal services, we have included them. This does not affect the City's deficit or surplus position.

2. Edmonton

In the mid-1990s, Edmonton divested itself of $900 million in annual expenditures representing 60% of its budget. Edmonton Telephones (EdTel) was sold, the Municipal Airport ceased operations, and the City's electrical and water utilities were transferred to EPCOR, a wholly owned subsidiary of the City of Edmonton. Controlling for these changes is no small matter and requires a detailed explanation.

In 1995, Edmonton Telephones was replaced by an annual stream of investment income provided by the EdTel Endowment Fund, which was created to receive and manage the proceeds of the sale. From 1990 to 1994, then, all of EdTel's revenues and expenditures were removed. An amount reflecting the cash provided by the utility was then added to the City's revenue. This "cash amount" is equivalent to the utility's operating revenue less operating expenditures (operating excludes depreciation), interest on debt and the full value of its capital expenditures. This cash amount is intended to mimic the proceeds now provided by the EdTel Endowment Fund. Similar treatment was extended to the Municipal Airport, but the "cash amount" contributed to the budget simply disappears after operations ceased in 1996. Because the numbers involved are very small (never representing more than 0.3% of total revenue), this approach does not materially affect comparability.

The creation of EPCOR is more complex because the operation continues, only in a different form. The revenues, operating expenditures, interest and capital expenditures of the electrical and water utilities used to appear on the City's consolidated statements. Today, these activities are reported on a "modified equity basis" where only the net income generated by EPCOR is added to the City's revenue. (Net income is defined as operating revenue less operating expenditure and interest on the debt. The full value of the capital expenditures, however, are not included. They are depreciated and charged to operating expenditure.) Because the full value of capital expenditures on the electrical and water utilities are included in our calculation of the City's total budget balance prior to the creation of EPCOR in 1996, not doing the same after 1996 yields two different types of budget balances that are not comparable. Further, the costs of interest must be broken out or it will appear that Edmonton's interest costs fell from $175 million in 1995 to $49 million in 1996.

From 1990 to 1995, then, all revenues and expenditures of the electrical and water utilities were removed from the City's total revenues and expenditures. An amount representing the operating surplus for the two utilities (operating revenue less operating expenditure) was then added to the City's operating revenue. The interest paid by the utilities remains a part of total expenditures as does the full value of the utilities' capital expenditures. A similar approach was then taken for EPCOR. An operating surplus was calculated and added to the City's operating revenue. The interest paid by EPCOR was attached to the City's interest amount and the full value of the company's capital expenditures were also added to produce a more comparable budget balance over time.

From an accounting point of view, such an approach is clearly unorthodox. Seen from an analytical standpoint, however, it produces a set of revenues, expenditures, interest costs, capital expenditures, and budget balances that are more consistent over time. It also allows us to see more clearly the City's operating balance, the balance after paying interest, and the consolidated balance after capital expenditures. The approach is not without problems. For example, when the costs of interest are measured as a percentage of operating expenditure, Edmonton's interest bill will be inflated compared to other cities because the electrical and water revenue and expenditure amounts are presented on a net basis. This underscores the need to avoid making comparisons among cities, and to focus on similar trends within the cities. At the same time, the data do reveal the total amount of interest paid on Edmonton's debt, and this is a key fiscal indicator.

3. Calgary

In 1998, Calgary transferred over $330 million in expenditures on its electrical utility to ENMAX, a wholly-owned subsidiary of the City of Calgary. As such, the City's revenues and expenditures prior to 1998 have been modified just like Edmonton's. Operating surpluses for the electrical utility and ENMAX were calculated and then added to total revenue. Interest costs for both the utility and ENMAX were added to the City's interest costs, as was the full value of their capital expenditures, which together form part of the City's budget balance. The same cautions for Edmonton also apply to Calgary.

4. Saskatoon

Significant adjustments were made to Saskatoon's past consolidated statements to control for transfers to and from reserves, and principal repayments and debt issuance. Starting in 1991, Saskatoon fully expensed its capital expenditures on the Consolidated Statement of Revenue and Expenditures, and this approach was employed to adjust the 1990 figures. No outstanding issues of major consequence emerge for Saskatoon given both the continuity and comprehensiveness of the information contained in the Annual Reports.

5. Regina

The data for this city do not reflect the information in the City's new consolidated statements, which were significantly altered in 1998. Rather, revenue and expenditure amounts reflect the information in the "Non-Consolidated Statements" (1997 to 2000) and the "Combined Statements" (1990 to 1996). To bridge the gap between the non-consolidated balance and the new consolidated presentation, an amount labeled "Net Proceeds From Other Activities" was added to revenues to arrive at a consolidated surplus or deficit position. Capital revenues (less contributions from the operating budget and debt financing) and capital expenditures were then added to round out the data.

6. Winnipeg

Significant adjustments to Winnipeg's financial statements had to be made to ensure reasonable consistency over time and comparability with other cities. First, alterations were made to control for a reduction in conditional grants that took place in 1999 after certain social service responsibilities were transferred to the province. Failing to control for this change would lead one to conclude that operating grants fell by 32% in one year and expenditures were cut by 6%. The grant was removed from revenues for each year during the 1990 to 2000 period and expenditures were adjusted by a corresponding amount.

Second, Winnipeg does not expense its capital expenditures. All capital expenditures less external revenues were therefore added to the City's budget balance to better compare with other cities. However, the amount of capital spending in Winnipeg is also presented net of certain internal financing amounts and contributions from the operating budget. While this affects the size of Winnipeg's deficit or surplus from year to year, it does not alter the general trend. For purposes of calculating Winnipeg's budget balance, we used the net capital expenditures in the financial reports. However, because "netting" reserve revenue against total capital expenditure makes it appear that Winnipeg is spending less on capital than is actually the case, we used the gross capital expenditures as authorized annually by city council when comparing actual spending levels. While this approach is less than ideal, it does not obscure our primary focus of uncovering the broad fiscal trends in Winnipeg.

APPENDIX 2: Complicating Factors

1. Reserves and Interfund Transfers

The fiscal equation outlined in *Figure 1* is complicated by *interfund transfers* (the blue arrows). These are amounts that flow from the operating to the capital fund, and both to and from reserve funds to both the operating and capital funds. While most cities today eliminate the majority of these transfers when preparing their consolidated statements, this was not the case in years past. Failing to eliminate all interfund transfers can be highly problematic because they obscure revenues and expenditures – sometimes to the point where the terms surplus and deficit lose any meaning.

To the extent possible, all interfund transfers were eliminated from the Canada West Foundation database. Contributions from the operating fund to the capital fund and amounts entering reserves were not treated as expenditures. Likewise, amounts from reserves were not treated as revenue. There are three important reasons for this approach.

First, if contributions from the operating fund to the capital fund are counted, both the operating surplus and the capital deficit will be reduced. While this does not affect the size of the consolidated budget balance, it prevents an accurate reading of the size of the capital shortfall and the "cushion" within the operating budget. Second, amounts entering a reserve fund are essentially being placed in a "savings account" to be spent in the future. The amount is extra income, and should form part of any potential surplus at the end of the year. Similarly, drawing from reserves is akin to dipping into a "savings account" to fund a budget shortfall. Rather than recording that amount as income, it should contribute to a potential deficit. Third, if interfund transfers are not removed, revenues and expenditures are essentially double-counted from one year to the next. Yesterday's "expenditure" (money going into a reserve) becomes tomorrow's "revenue" (money from a reserve fund).

Conceptually, some might take issue with such a treatment of reserves. After all, these funds are specifically set aside by city councils to be spent on municipal services and capital projects. Expenditures should not have to be kept low simply to avoid drawing from reserves and therefore avoiding a budget deficit. While this complaint is valid, our primary objective is to arrive at a budget deficit or surplus amount that considers only *current* revenue and expenditure. To be sure, a city can fund its own budget deficit by drawing from reserve funds rather than issuing debt. However, the essential point is that a consistent string of budget deficits will result in either debt growing or reserves being depleted faster than they are being built. Both represent a measurable deterioration in the fiscal health of a city by decreasing its equity when defined as *financial* assets less *financial* liabilities.

2. Capital Revenue and Expenditure

How a city records its capital revenues and expenditures can have a monumental effect on whether a city's budget is in a deficit or a surplus position, not to mention the size of any final budget balance that emerges at the end of the fiscal year. In the early 1990s, none of the six western Canadian cities presented a capital fund on their consolidated income and expenditure statements. In other words, the capital side of *Figure 1* was missing. Instead, capital expenditures were depreciated over time and a smaller amount than the actual expenditure was charged out as an annual expenditure within the operating fund. While this reflects the approach taken by business when accounting for capital expenditures, it obviously obscures a city's final budget balance, resulting in larger reported surpluses and smaller reported deficits.

Canada West's database includes the full value of capital revenues and expenditures in arriving at a final budget deficit or surplus. To avoid double-counting, capital depreciation and amortization charges were removed from operating expenditures and the full value of external capital revenue and capital expenditures were added. (To ensure consistency throughout the decade, this method was also applied to EPCOR's and ENMAX's capital expenditures. These outlays used to form part of Edmonton's and Calgary's municipal operations, but no longer appear on their financial statements.)

There are numerous reasons to follow this approach. First, five of the West's six largest cities now expense their capital expenditures. Second, this approach provides a much better fit between the final budget deficit or surplus emerging from the cities and those recorded by the federal and provincial governments, which typically make no distinction between operating and capital expenses. Third, the expensing of capital expenditures provides more visibility in terms of actual dollars being spent in the current fiscal year.

An argument against this approach, and the final deficit or surplus that it yields, could be raised. Canadian cities are legally instituted corporations – Calgary's 1990 annual report carries the title *Annual Report: The Corporation of the City of Calgary* (Calgary, 1990). As such, the traditional business practice for capital asset acquisition does not seem unreasonable. However, government is not business. When a company purchases a capital asset – a factory, for example – the asset is expected to generate revenue over the course of its useful life. Recording the full cost of acquiring the asset in one year ignores the fact that the factory is more of an *investment* than an expenditure. But what about a new $50 million interchange? While it surely has value to both citizens and business, as an investment, it will generate little direct revenue for a city government. In this case, the interchange is less of an investment and more of an *expenditure* to be fully recorded in the year it is made.

More important, a business could sell its newly acquired factory before it is fully depreciated and recoup part of its investment. But not all government capital assets can be realistically sold. A city can depreciate and expense the cost of its interchange over a 25 year period, but where can it find a purchaser five years *after* it is built? What about roads, sidewalks, street lights, sewer lines, water pipes, police stations, fire halls, or public library buildings? To be sure, some government assets can be sold (e.g. equipment and even a municipal utility) but most cannot pending radical shifts in government policy. Besides, the company building the $50 million interchange needs full payment when the project is completed, not $2 million a year over the next quarter century.

3. Principal Repayments and Debt Issuance

Throughout the 1990s, many cities considered the repayment of principal on outstanding debt as an operating expenditure. Some cities also recorded the issuance of debt as a source of capital revenue. (In *Figure 1*, these flows are shown by the b[l]ck arrows.) Canada West's financial database does not treat the repayment of principal as an expenditure, nor does it consider the proceeds of debt to be revenue. (If taking on debt is a revenue, it is conceivable that no city would ever incur a deficit or secure a surplus!) In the municipal context, there is only one reason to take on debt, and that is to finance the capital *deficit*. Debt is a source of *financing*, not a source of *revenue*.

With regards to the repayment of debt, the essential point to consider is that any real reduction in debt (defined as total financial liabilities less financial assets) can only occur when the total budget is in surplus. If a city is running a budget deficit, an amount for principal will still be paid out of the operating budget since municipal debt is amortized over a specific time period and regular payments of both principal and interest must be made. However, the amount of outstanding debt cannot decrease because the debt will likely be "rolled" over – some debt will be repaid out of the operating side of the budget while more debt will be assumed on the capital side.

Some would point out that it is conceivable for a city to reduce its outstanding debt even in a deficit situation by drawing on its reserves or reducing the accumulated surpluses in its other funds. But whether debt is issued or reserves are drawn upon, both amount to the same thing – a reduction in financial equity. Ultimately, it is this reduction that defines a government deficit. It is academic to debate whether the deficit is being financed by debt that increases the financial liabilities or by reserves and accumulated surpluses that reduce the financial assets. An approach that is more clear, and one that reflects provincial and federal budgets, is for all principal repayments to be pulled from expenditures, leaving any reduction in debt to come from a potential surplus at the end of the fiscal year.

The ultimate goal of a financial database is to arrive at a reasonably consistent set of numbers that will provide a clear indication of ongoing trends in deficits, debt, and externally-generated revenues and expenditures. Ignoring transfers to and from reserves, eliminating debt repayment, and fully expensing capital purchases provides the best solution.

APPENDIX 3: Canada West Urban Financial Database

VANCOUVER	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Operating Revenue	536,506	555,715	615,988	629,994	648,030	665,534	689,471	678,254	707,615	751,564	775,544
Program Expenditure	(402,260)	(435,978)	(472,175)	(507,220)	(510,711)	(533,279)	(552,000)	(548,737)	(573,470)	(596,069)	(593,723)
Interest on Debt	(28,109)	(29,029)	(29,679)	(26,621)	(20,541)	(31,747)	(32,934)	(30,221)	(30,561)	(36,132)	(37,931)
Capital Revenue	10,918	17,877	22,078	25,450	19,325	50,956	12,692	18,675	21,373	22,196	29,228
Capital Expenditure	(92,709)	(93,918)	(129,674)	(144,720)	(253,790)	(160,324)	(117,159)	(133,798)	(141,173)	(160,639)	(137,024)
Budget Balance	22,857	24,063	7,703	(32,719)	(103,686)	(57,860)	(889)	(65,605)	(26,676)	(21,279)	36,094
Net Tax-Supported Debt	386,244	418,320	436,303	497,355	512,075	489,086	541,559	600,605	602,318	642,536	675,817
Net Self-Supported Debt	31,099	38,230	37,464	37,270	48,679	56,825	77,202	91,389	87,578	102,210	82,805
EDMONTON	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Operating Revenue	902,314	985,855	1,007,053	983,316	1,061,364	1,089,711	1,105,633	1,167,467	1,194,590	1,176,716	1,332,261
Program Expenditure	(658,505)	(727,627)	(734,870)	(636,450)	(665,457)	(529,670)	(559,962)	(593,038)	(625,152)	(712,250)	(746,289)
Interest on Debt	(225,700)	(232,227)	(234,956)	(245,776)	(198,833)	(174,864)	(159,495)	(139,766)	(135,602)	(134,769)	(145,420)
Capital Revenue	110,367	91,896	140,310	88,667	108,304	79,313	69,890	81,861	97,950	67,319	122,838
Capital Expenditure	(285,653)	(246,856)	(302,679)	(334,566)	(277,316)	(269,249)	(229,279)	(247,279)	(242,253)	(195,625)	(164,662)
Budget Balance	(56,978)	(22,845)	26,049	(71,521)	28,300	63,030	126,247	108,653	86,953	(71,417)	94,646
Net Tax-Supported Debt	200,805	242,349	212,737	198,352	163,125	144,416	113,082	97,670	83,666	69,604	55,315
Net Self-Supported Debt	1,817,915	1,870,263	1,902,578	2,030,139	1,914,560	1,626,663	1,564,929	1,521,560	1,510,027	1,593,721	2,022,622
CALGARY	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Operating Revenue	955,338	1,009,167	1,028,614	1,041,479	1,060,080	1,062,659	1,077,870	1,104,014	1,252,109	1,273,356	1,424,294
Program Expenditure	(724,457)	(816,711)	(837,808)	(809,116)	(678,276)	(734,423)	(732,240)	(759,556)	(809,275)	(868,146)	(947,639)
Interest on Debt	(291,629)	(294,226)	(293,473)	(274,232)	(266,476)	(256,743)	(232,227)	(191,629)	(173,347)	(129,327)	(120,320)
Capital Revenue	119,999	90,123	70,294	68,133	81,579	125,629	108,554	125,144	159,109	167,118	168,531
Capital Expenditure	(220,250)	(279,943)	(254,433)	(286,265)	(227,802)	(211,746)	(216,505)	(266,249)	(228,035)	(197,292)	(147,549)
Budget Balance	50,564	20,980	(22,709)	(10,447)	76,151	48,488	70,050	150,532	129,067	14,601	11,424
Net Tax-Supported Debt	918,724	880,291	839,234	792,042	724,207	674,076	623,924	572,697	523,057	492,026	485,830
Net Self-Supported Debt	668,143	680,692	721,717	690,932	735,973	696,588	734,299	750,089	720,720	695,103	1,072,048
SASKATOON	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Operating Revenue	224,508	229,000	236,935	244,662	243,760	261,252	273,157	270,557	286,371	294,079	313,599
Program Expenditure	(168,735)	(169,630)	(184,825)	(193,250)	(193,294)	(206,448)	(215,556)	(221,184)	(231,582)	(221,529)	(233,619)
Interest on Debt	(6,262)	(5,845)	(5,629)	(4,133)	(4,274)	(4,622)	(4,588)	(3,886)	(4,078)	(3,310)	(2,705)
Capital Revenue	6,132	4,673	6,379	4,839	9,794	5,054	3,260	6,469	4,426	4,415	7,487
Capital Expenditure	(47,525)	(31,771)	(35,446)	(29,504)	(38,855)	(30,442)	(30,442)	(38,647)	(33,655)	(33,764)	(49,752)
Budget Balance	(11,612)	3,637	8,023	20,157	18,722	(75,229)	14,879	881	4,261	14,157	14,988
Net Tax-Supported Debt	25,420	23,050	21,984	19,401	16,493	13,316	10,164	7,850	5,296	2,494	985
Net Self-Supported Debt	17,206	15,759	15,723	14,106	12,481	48,620	44,610	40,239	35,670	30,809	25,743
REGINA	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Operating Revenue	174,230	174,855	180,425	181,452	185,079	191,342	194,458	200,963	202,059	206,112	209,053
Program Expenditure	(143,550)	(149,835)	(157,276)	(154,559)	(161,256)	(153,424)	(163,525)	(160,615)	(162,113)	(164,865)	(168,595)
Interest on Debt	(8,266)	(7,995)	(8,298)	(8,250)	(7,829)	(8,663)	(7,758)	(4,957)	(4,795)	(3,872)	(3,619)
Capital Revenue	12,442	5,643	5,186	4,070	6,662	5,208	4,614	5,917	8,015	10,664	9,368
Capital Expenditure	(36,457)	(29,545)	(25,885)	(26,466)	(37,326)	(30,559)	(29,268)	(36,845)	(40,194)	(31,925)	(37,299)
Budget Balance	(829)	(2,895)	(6,368)	(3,775)	(2,811)	962	521	376	1,263	10,773	3,703
Net Tax-Supported Debt	23,156	19,645	15,524	12,261	9,964	6,910	4,740	3,510	3,316	905	364
Net Self-Supported Debt	23,829	36,395	33,190	28,886	24,516	33,661	27,928	51,371	54,665	47,160	39,908
WINNIPEG	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Operating Revenue	817,202	836,341	862,703	874,128	916,726	965,839	968,222	995,023	1,011,214	1,057,270	1,100,298
Program Expenditure	(648,980)	(643,259)	(717,218)	(722,329)	(814,153)	(763,042)	(776,858)	(796,076)	(793,663)	(859,968)	(762,745)
Interest on Debt	(9,235)	(8,100)	(12,295)	(10,278)	(15,340)	(18,634)	(17,160)	(14,766)	(13,462)	(12,960)	(10,230)
Capital Revenue	21,816	15,268	17,305	13,202	34,582	38,980	17,144	36,066	42,539	28,979	28,274
Capital Expenditure	(135,773)	(96,111)	(110,344)	(111,115)	(105,751)	(166,351)	(131,629)	(108,126)	(111,204)	(121,196)	(82,914)
Budget Balance	(33,420)	(9,304)	(34,334)	(51,471)	18,029	(33,633)	(41,818)	68,783	73,708	58,784	160,621
Net Tax-Supported Debt	577,750	551,754	535,847	577,670	582,992	629,670	593,073	620,427	578,166	591,851	485,388
Net Self-Supported Debt	208,933	197,081	223,686	265,902	310,374	320,957	322,798	323,041	302,571	311,610	302,111

SOURCE: Derived by CMT from Annual Financial Reports of the cities (1990-2000). Annual Reports of EPCOR and EMMAK (1996-2000, 2001). Capital expenditures for Winnipeg are net of certain external financing amounts. Tax-supported debt for Vancouver includes joint and sustainable (GVRD) debt. Debt for Edmonton and Calgary include EPCOR and EMMAK.

APPENDIX 3: Canada West Urban Financial Database

VANCOUVER	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Operating Revenue	536,506	555,715	615,988	629,994	648,030	665,534	689,471	678,254	707,615	751,564	775,544
Program Expenditure	(402,266)	(435,628)	(472,175)	(507,270)	(510,711)	(531,820)	(552,090)	(548,737)	(573,470)	(596,869)	(593,723)
Interest on Debt	(30,106)	(30,029)	(28,674)	(26,621)	(30,541)	(31,747)	(32,934)	(40,221)	(40,961)	(38,132)	(37,931)
Capital Revenue	10,918	17,877	22,078	25,450	19,325	50,956	12,692	18,675	21,373	22,196	29,228
Capital Expenditure	(92,195)	(83,872)	(129,514)	(143,732)	(233,788)	(180,324)	(117,353)	(133,708)	(141,173)	(160,036)	(137,024)
Budget Balance	22,857	24,063	7,703	(22,179)	(107,685)	(27,401)	(222)	(25,737)	(26,616)	(21,277)	36,094
Net Tax-Supported Debt	386,244	418,328	436,383	497,355	512,075	489,886	541,559	600,685	602,318	642,536	675,817
Net Self-Supported Debt	31,099	38,230	37,464	37,270	48,879	56,825	77,282	91,389	87,578	102,210	82,885
EDMONTON	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Operating Revenue	902,314	985,855	1,007,053	983,316	1,061,364	1,089,711	1,185,633	1,167,467	1,194,590	1,176,716	1,332,261
Program Expenditure	(604,551)	(632,637)	(634,071)	(636,652)	(645,417)	(629,878)	(709,962)	(703,838)	(675,457)	(712,255)	(788,281)
Interest on Debt	(123,197)	(172,077)	(174,576)	(161,716)	(160,037)	(174,866)	(194,055)	(176,466)	(166,889)	(158,169)	(165,570)
Capital Revenue	110,307	91,896	140,318	80,667	100,304	79,313	69,890	81,061	97,959	67,319	122,838
Capital Expenditure	(385,831)	(306,080)	(312,675)	(339,936)	(277,914)	(301,241)	(225,259)	(267,571)	(353,250)	(395,028)	(406,602)
Budget Balance	(100,958)	(33,843)	26,049	(74,321)	78,300	63,039	126,247	100,653	96,953	(21,417)	94,646
Net Tax-Supported Debt	200,805	242,348	212,737	190,352	163,125	144,416	113,082	97,670	83,666	69,604	55,315
Net Self-Supported Debt	1,817,915	1,870,263	1,902,578	2,030,139	1,914,560	1,626,663	1,564,929	1,521,580	1,510,027	1,593,721	2,022,622
CALGARY	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Operating Revenue	955,338	1,009,167	1,028,614	1,041,479	1,060,080	1,062,659	1,077,870	1,184,014	1,252,109	1,273,356	1,424,204
Program Expenditure	(598,401)	(656,113)	(679,498)	(689,115)	(678,295)	(704,467)	(710,346)	(750,956)	(809,219)	(868,749)	(941,659)
Interest on Debt	(191,620)	(189,320)	(184,971)	(178,352)	(166,210)	(158,187)	(150,317)	(141,629)	(134,381)	(125,827)	(128,509)
Capital Revenue	115,999	93,123	70,294	64,133	81,579	125,629	108,954	125,344	159,109	187,118	168,531
Capital Expenditure	(230,752)	(235,957)	(256,837)	(266,392)	(221,003)	(277,146)	(256,102)	(266,241)	(338,551)	(451,297)	(511,143)
Budget Balance	50,564	20,900	(22,398)	(28,247)	76,151	48,488	70,059	150,532	129,067	14,601	11,424
Net Tax-Supported Debt	918,724	880,291	839,234	792,042	724,207	674,026	623,924	572,697	523,057	492,826	485,830
Net Self-Supported Debt	668,143	680,692	721,717	690,932	735,973	696,588	734,299	750,089	728,720	695,103	1,072,048
SASKATOON	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Operating Revenue	224,508	229,000	236,935	244,602	243,760	261,202	273,157	270,557	286,371	294,079	313,599
Program Expenditure	(188,781)	(192,651)	(190,831)	(195,292)	(191,244)	(206,069)	(210,978)	(212,446)	(217,927)	(227,127)	(233,631)
Interest on Debt	(6,353)	(5,666)	(4,620)	(4,138)	(4,733)	(5,555)	(4,588)	(5,068)	(4,918)	(3,510)	(2,702)
Capital Revenue	6,132	4,673	6,379	4,839	9,794	5,854	3,260	6,469	4,426	4,415	7,487
Capital Expenditure	(47,127)	(31,719)	(39,840)	(29,854)	(38,855)	(80,460)	(45,972)	(58,631)	(63,691)	(53,700)	(69,755)
Budget Balance	(11,621)	3,637	8,023	20,157	18,722	(25,028)	14,879	881	4,261	14,157	14,998
Net Tax-Supported Debt	25,420	23,050	21,984	19,401	16,493	13,316	10,184	7,850	5,296	2,494	985
Net Self-Supported Debt	17,206	15,759	15,723	14,106	12,481	48,620	44,610	40,239	35,670	30,809	25,743
REGINA	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Operating Revenue	174,230	174,855	180,425	181,452	185,079	191,342	194,458	200,963	202,059	206,112	205,053
Program Expenditure	(143,556)	(148,809)	(157,216)	(154,938)	(152,398)	(153,539)	(161,521)	(160,624)	(162,037)	(168,002)	(168,901)
Interest on Debt	(8,266)	(7,995)	(8,789)	(8,293)	(7,824)	(8,663)	(7,738)	(8,997)	(6,580)	(6,016)	(4,018)
Capital Revenue	12,442	5,643	5,186	4,070	6,662	5,208	4,614	5,917	8,015	10,604	9,368
Capital Expenditure	(35,451)	(26,591)	(25,888)	(26,006)	(37,330)	(33,386)	(29,292)	(36,883)	(40,194)	(31,925)	(37,799)
Budget Balance	(601)	(2,897)	(6,282)	(3,715)	(5,811)	962	521	376	1,263	10,773	3,703
Net Tax-Supported Debt	23,156	19,645	15,524	12,261	9,964	6,918	4,740	3,518	3,316	905	364
Net Self-Supported Debt	23,828	36,395	33,190	28,886	24,516	33,661	27,928	51,371	54,665	47,160	39,908
WINNIPEG	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Operating Revenue	817,202	836,341	862,703	874,128	916,726	965,839	968,222	995,023	1,011,214	1,057,270	1,100,298
Program Expenditure	(646,465)	(657,242)	(717,234)	(722,123)	(704,137)	(765,967)	(776,818)	(748,878)	(761,861)	(793,969)	(767,197)
Interest on Debt	(99,240)	(94,300)	(92,300)	(102,200)	(104,400)	(109,600)	(107,900)	(104,700)	(105,800)	(107,900)	(110,300)
Capital Revenue	21,855	15,268	17,385	13,202	34,582	38,988	17,144	36,066	42,939	28,979	20,274
Capital Expenditure	(176,774)	(160,573)	(150,890)	(114,418)	(124,751)	(188,838)	(114,678)	(108,728)	(112,784)	(125,596)	(82,454)
Budget Balance	(83,422)	(60,506)	(80,336)	(51,411)	18,020	(59,578)	(14,030)	68,783	73,708	58,784	160,621
Net Tax-Supported Debt	577,750	551,754	535,847	577,670	582,992	629,670	593,073	620,427	578,166	591,851	485,308
Net Self-Supported Debt	208,933	197,081	223,686	265,002	310,374	328,957	322,798	323,041	302,571	311,610	302,111

SOURCE: Derived by CWF from Annual Financial Reports of the cities (1990-2000), Annual Reports of EPCOR and ENMAX (1996-2000), DBRS, CBRS. Capital expenditures for Winnipeg are net of certain internal financing amounts. Tax-supported debt for Vancouver includes prior year's estimate of GVRD debt. Debt for Edmonton and Calgary include EPCOR and ENMAX.

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